OHIO STATE UNIVERSITY
JAN 31 1962
LIBRARY

The Business Quarterly

WINTER 1961 | VOLUME XXVI NUMBER 4

Price $1.50

215 ORGANIZATION CENTER ANALYSIS • Gerald G. Fisch

226 CANADA'S URANIUM INDUSTRY: A CRISIS OF SURVIVAL • W. D. G. Hunter

233 SYSTEMATIC MARKETING PLANNING • James M. Foggo

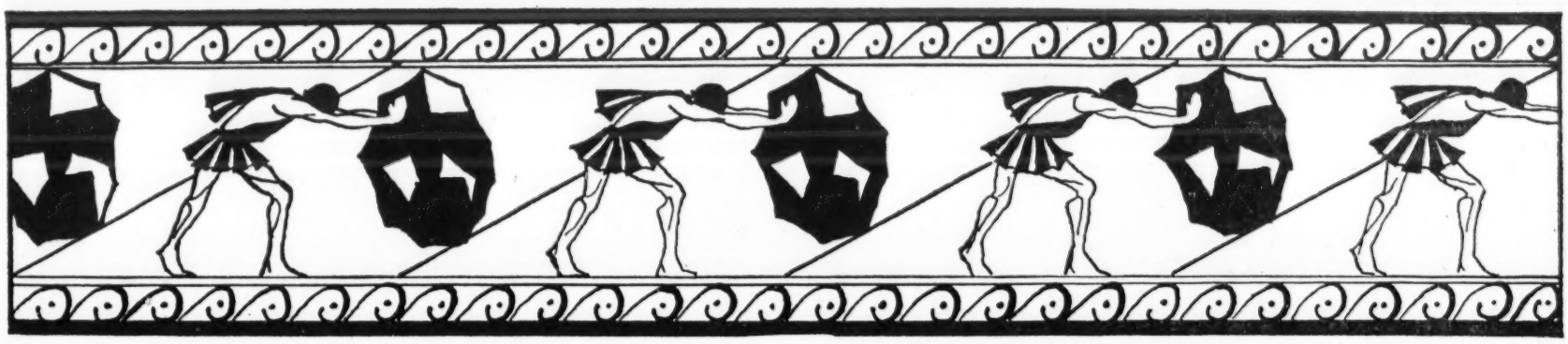
237 DYNAMIC BOND PORTFOLIO MANAGEMENT • D. H. Fullerton

245 POLICIES FOR CORPORATE GIVING • Gordon R. Finch and J. Gregory O'Neill

249 THE PERSONNEL FUNCTION: A PRACTITIONER'S APPROACH • Harold J. Clawson

published by The School of Business Administration

UNIVERSITY OF WESTERN ONTARIO



SISYPHUS was condemned
to roll to the top of a hill
a huge stone that always
rolled down again—money
earned and frittered away
is earned by fruitless labour.

The CANADA LIFE
Assurance Company

THE
BUSINESS
QUARTERLY

VOLUME XXVI NUMBER 4
WINTER 1961

Editor
WILLIAM J. MCDOUGALL

Associate Editor
C. KENNEDY MAY

Assistant Editor
MRS. ANNE LUCAS

Editorial Council
N. M. ARMSTRONG
EMERSON CREED
F. W. P. JONES
JOHN PAUL
R. S. MACKAY
R. K. READY
G. L. REUBER
WALTER A. THOMPSON
MRS. GENE INGLIS

Published by—
The School of Business Administration
University of Western Ontario,
London, Canada.

The views and opinions herein expressed are those of the several authors and do not represent an official opinion of *The Business Quarterly* or the University of Western Ontario.

Manuscripts and correspondence concerning articles should be addressed to the Editor.

A consolidated index of subjects and authors was published for the first 20 volumes in Vol. XX, No. 4. A Volume Index is published annually in the Winter issue. The contents are currently indexed by the Canadian Index, Ottawa, the Public Affairs Information Service, New York, and "Management's Documentation Preview," Documentation Inc., Woodbury, N.J.

Subscriptions — Single copy, $1.50; One year, $5.00; Three years, $9.50.
Advertising Rates — Furnished by the Business Manager upon request.
All correspondence concerning subscriptions, advertising and mailing should be addressed to:
The Business Quarterly,
School of Business Administration,
University of Western Ontario,
London, Canada.
Printed by—
Hunter Printing London Limited,
125 Elm Street, London, Canada.
Authorized as second class mail, Post Office Department, Ottawa, Canada, and for payment of postage in cash.

Competence and Responsibility

In his article on the personnel function, which is appearing in this issue of the *Quarterly,* Harold J. Clawson notes the vital link between integrity and managerial competence. On this subject, he has drawn our attention to an article by Dr. Stanley F. Teele, Dean of the Harvard Graduate School of Business Administration, that was published in the Winter 1957 issue of the *Quarterly.*

We would like to share with you again some of Dr. Teele's remarks; they are worthy of much repetition.

"There are obviously many ways to describe an effective manager and to catalogue the qualities and skills which characterize him. Let me remind you that the Oxford Universal Dictionary defines 'to manage' as 'to control the course of affairs by one's own action.' From my observation the most important elements in controlling the course of affairs by one's own action are the ability to make wise decisions, the ability to work with people effectively toward a common purpose, and the ability to call upon a body of technical and specialized knowledge at the appropriate time and in the appropriate way. In thinking about the fundamentals of the task of the business manager I have often observed that it calls for a compound of knowledge and wisdom, using wisdom in the dictionary sense of 'the capacity of judging soundly and dealing broadly with the facts.'

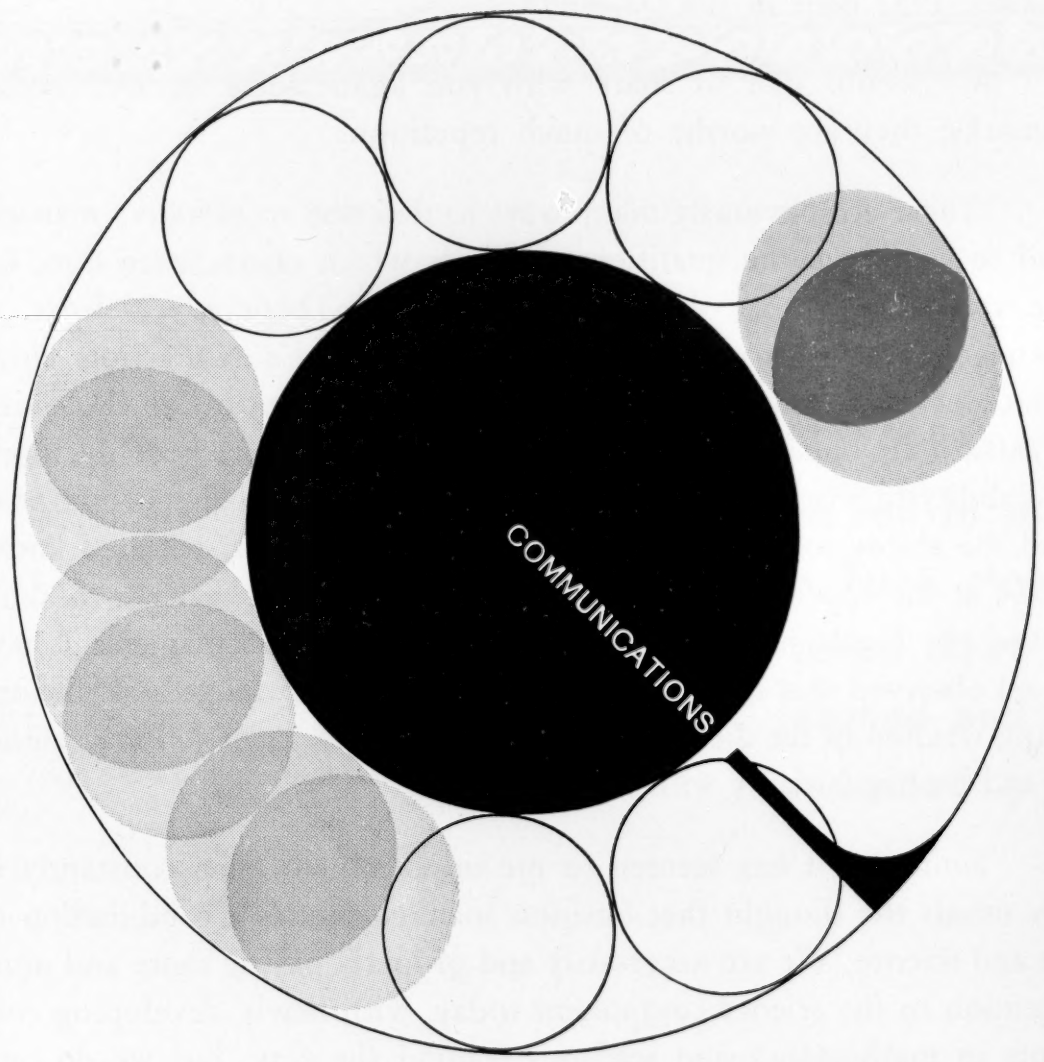
"Similarly, it has seemed to me important to keep constantly in our minds the thought that business management is a combination of art and science. We are necessarily and properly paying more and more attention to the science component today, with newly developing concepts in mathematics and statistics leading the way; but we do ourselves a disservice if we forget that, even with this development, business management remains overwhelmingly a skill which can best be developed, as with the arts, by practice under guidance.

"'The business manager should not only be competent; he should also be responsible. In our common North American society, business and, therefore, business managers occupy a central position . . .

"All these elements have been important, but there is another which we have tended to overlook: the rise of the professional manager, the man who feels a sense of responsibility to all elements in the business society, who can and does take a long-range point of view, who can and does recognize the need to strike a balance among stockholders, employees, customers, suppliers and the public generally. Even more importantly, the rise of the professional manager gives assurance that the direction of affairs will be in the hands of the competent and will not be determined solely by inheritance.

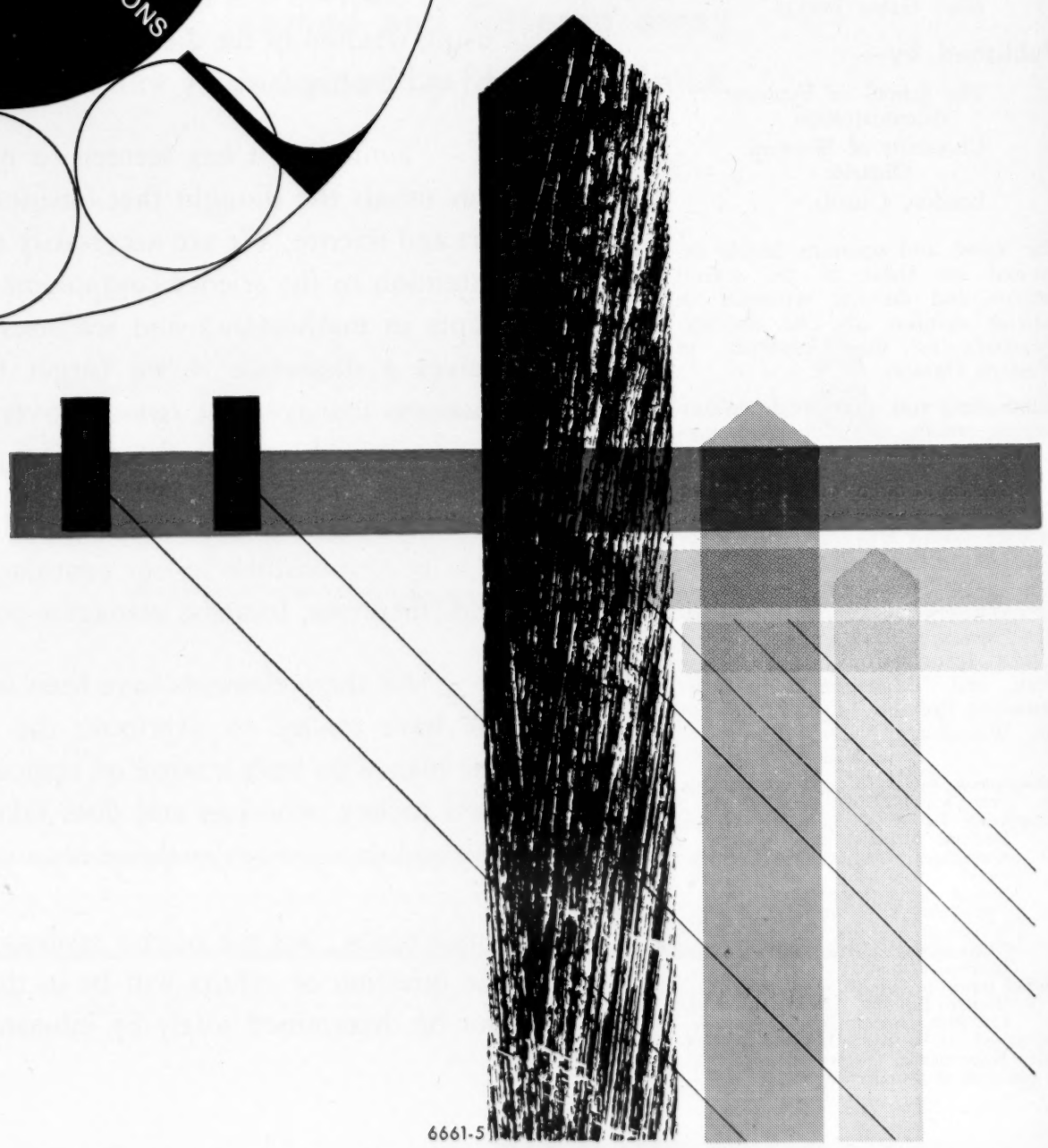
Continued on page 205

SERVING CANADA THE NORTHERN WAY



The aim of Northern Electric Engineers is to continue to design and manufacture the finest in Communication equipment. Northern's research facilities and manufacturing capabilities are unexcelled in this field in Canada. Northern Electric designs, manufactures and installs a large proportion of Canada's telephone communication systems and equipment. It includes the manufacture of electrical wires and cables for communications and power transmission, and the distribution of a complete line of electrical apparatus and supplies. At Northern Electric, product research and development never stops and continuing progress is made in the communication, electrical wire and cable fields.

Northern Electric
COMPANY LIMITED



6661-5

Editorial cont.

"Finally, I come to my third and last goal the development of a set of ultimate values . . . 'Does a school of business administration, devoted to the task of preparing men and women to be the managers of our economy, have the responsibility to **help its students in their search for ultimate values?**" My answer to this query is a firm "Yes". I believe that we do have that responsibility. I believe that we should encourage men to engage in that necessary, disturbing, even painful task.

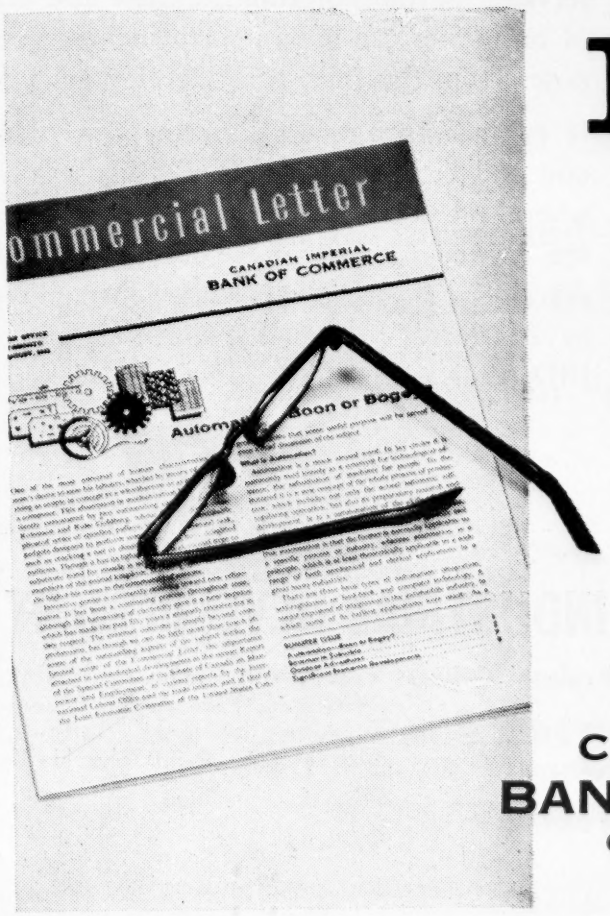
Why is this any of our concern? Why should we not leave this to the church, to a man's own reading and study? It is because business is intertwined with our whole society. It cannot be isolated or considered alone. It is not meaningful or explicable apart from the social, political and cultural framework within which it operates. The search for the ultimate values in our day must include the search for those values in the business community. Furthermore, a man's personal philosophy, his way of looking at the world and the men and women around him, determines his success as a manager of things and people more than any other single factor. His basic attitudes are far more significant than the techniques he uses. As we have learned more and more about business organization as a social unit, we have become increasingly certain that the executive's skill with people—or the lack of it—is the determining element in his long-range success or failure. As we look ahead, we have reason to believe that this will be increasingly true. In short, the time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator."

SUPERTEST

Canada's Finest Gasolines

SUPERTEST
ALL CANADIAN

At The Sign of The MAPLE LEAF



READ

ABOUT
CANADA'S ECONOMY
IN OUR MONTHLY
COMMERCIAL LETTER

Contains concise, accurate surveys of Canadian commercial and industrial activities, finance and foreign trade developments. Features timely articles by experts on the main facets of the Canadian economy.

Please contact our nearest branch manager if you wish to be placed on our mailing list; or write to:

THE BANK THAT BUILDS

CANADIAN IMPERIAL BANK OF COMMERCE

Over 1260 branches to serve you
Head office—Toronto

MP-1031

What types of businesses does IDB help finance?

Manufacturing and commercial businesses . . . wholesale and retail trade . . . primary and secondary industry . . . tourist, recreational and service businesses . . . construction trades . . . professional services . . . transportation . . . these and other types of businesses can obtain financing for various purposes from the Industrial Development Bank.

If you are engaged in a business or plan to start one and required financing is not available elsewhere on reasonable terms and conditions, you are invited to visit an I.D.B. office, write for a descriptive booklet, or consult your auditor, lawyer or chartered banker for information regarding IBD services.

idb

INDUSTRIAL DEVELOPMENT BANK

Regional Offices: Vancouver, Edmonton, Calgary, Regina, Winnipeg, Port Arthur, Sudbury, London, Hamilton, Toronto, Ottawa, Montreal, Quebec City, Saint John, Halifax, St.John's

About Our Authors

Gerald G. Fisch, Managing Director of Payne-Ross Limited, has eleven years' experience in management consulting. He is a special lecturer at the Amos Tuck School of Business Administration, Dartmouth College, and has lectured at the Harvard Business School and M.I.T. School of Industrial Management. Mr. Fisch is a frequent speaker to Canadian business groups and is the author of recent articles in the *Harvard Business Review* and *Cost and Management.*

W. D. G. Hunter was born in Edinburgh, Scotland and educated at Edinburgh University and the Queen's College, Oxford. He is an Assistant Professor of Economics at McMaster University where he teaches economic history and the history of economic theory. Prior to coming to Canada in 1951, Professor Hunter was a lecturer in the Department of Political Economy at Edinburgh University.

James M. Foggo is Manager of Market Research of B. F. Goodrich Canada Limited in Kitchener, Ontario. He was born in Winnipeg and received his Bachelor of Commerce degree in Marketing from the University of Manitoba in 1949. Before joining B. F. Goodrich, he worked as Accountant for Canadian Lastex, Montreal, a Division of the Dominion Rubber Company, as Assistant to the Sales Service Manager for Ontario in the British American Oil Company, Toronto, as Senior Analyst for the Commercial Research Department of the Carborundum Company, Niagara Falls, and he supervised Head Quarters Marketing Research for five years at Canadian Westinghouse, Hamilton. Mr. Foggo has lectured on Marketing and Market Research to numerous business groups, including the Industrial Seminar at Niagara Falls in 1957, 1958 and 1959.

D. H. Fullerton, Treasurer of the Canada Council, received his Bachelor of Commerce degree from McGill University in 1939 and his Master of Commerce degree in 1940. He has worked for the Dominion Bureau of Statistics, the Department of Finance, and Harris and Partners, Toronto investment dealers. Appointed Assistant Director of Research for the Gordon Commission in 1955, Mr. Fullerton was

Continued on next page

Greenshields Incorporated

MONTREAL
TORONTO
NEW YORK
LONDON
OTTAWA
QUEBEC
WINNIPEG
SHERBROOKE
LONDON, ONT.

Investment Dealers

507 PLACE D'ARMES
MONTREAL

Affiliate:
Greenshields Ltd.
Stock Brokers

Government of Canada Bonds

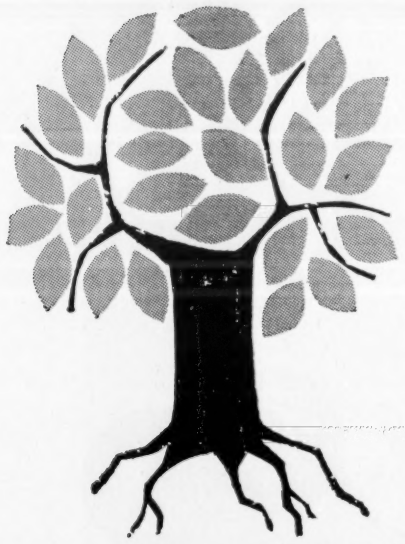
Provincial and Municipal Bonds and Debentures

Corporation Securities

A. E. Ames & Co.
Limited

Business Established 1889

Offices in principal Canadian Cities, NewYork, London England and Paris



INVESTMENT MANAGEMENT

A personal service for the planning and selection of your investments, under constant review to meet your changing needs.

"SEE THE
ROYAL TRUST
ABOUT IT"

CANADA'S LEADING EXECUTOR AND TRUSTEE
OFFICES ACROSS CANADA AND IN LONDON, ENG.

McLEOD, YOUNG, WEIR & COMPANY
LIMITED

DEALERS IN

GOVERNMENT, MUNICIPAL AND CORPORATION SECURITIES

50 King Street West
Toronto
362-7311

276 St. James Street West
Montreal
Victor 5-4261

Ottawa Winnipeg London Vancouver Hamilton
Calgary Kitchener Quebec Sherbrooke Windsor
Edmonton New York

About Our Authors cont.

in charge of studies on secondary manufacturing industry. He is co-author with A. H. Hampson of "Canadian Secondary Manufacturing Industry" and is currently writing a book on the bond business in Canada.

Gordon R. Finch received his B.A. degree in 1959 from the University of Western Ontario and his M.B.A. degree from there in 1961. He has worked with DuPont Company of Canada Limited, Division of Finance and Control, and is currently in the personnel group of International Business Machines Limited in Toronto.

J. Gregory O'Neill is the Director of of Organization and Methods for the Treasury Board of the Government of Ontario. Following his graduation from Assumption University, he joined the General Electric Company of Canada and became Manager of Auditing and Training. Prior to studying at the University of Western Ontario, where he received his M.B.A. degree in 1961, Mr. O'Neill was Secretary-Treasurer and Comptroller at Canadian Structural Steels Limited.

Harold J. Clawson is Vice-President —Personnel of the Steel Company of Canada, Limited. He studied Economics and Political Science at the University of Saskatchewan and graduated in Law with an LL.B. degree. Mr. Clawson's career in personnel administration and labour relations began in Montreal in 1942. Before joining the Steel Company of Canada, Limited as Director of Industrial Relations in 1954, he worked for Defense Industries Limited, Canadian Industries Limited, and Crane Limited. He is Vice-President of the Central Ontario Industrial Relations Institute and Chairman of the Labour Relations Sub-Committee of the Canadian Manufacturers' Association. Lecturer and author in the field of industrial relations, personnel administration, labour law and arbitration, Mr. Clawson is a previous contributor to *The Business Quarterly* ("The New Challenge of Industrial Relations," Fall 1959).

Growing markets and increasing competition require greater efficiency and accuracy. The world of business is made up of figures. We add, subtract, multiply and divide before we take action, before we know whether we succeed or fail. A simple mistake made at the wrong time may spell disaster. The Underwood-Olivetti printing calculator provides the perfect answer to this challenge, fast and accurately. To compensate for human errors, each Underwood calculator, from the simplest to the most advanced model, provides a printed record of all terms and results for verification and future reference.

underwood

D+2TM#8=TR4···3XIM6·→7÷TR#···D2#···8TR÷D2=7···4X·8÷1···9T·4X·6···M=9→2···D3#·9→2···4T···D2=TR2···3IM→6X7=TR#9+8T=D2··X→9÷7M6·+#8÷TR4X···ID2T=M3→6T+···

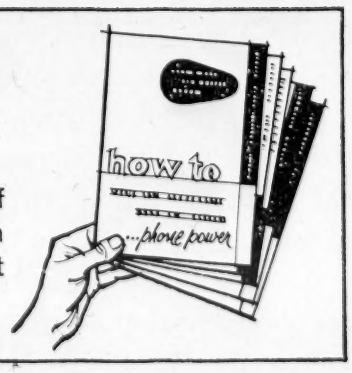
Visit 11 towns before lunch

Call on more customers daily by LONG DISTANCE

Planned use Long Distance really pays off. On out-of-town trips, phone customers and prospects in nearby areas. You make many more calls than you could cover in person . . . with no waiting! *Save extra time and money by calling by number, station to station.*

FREE BROCHURES

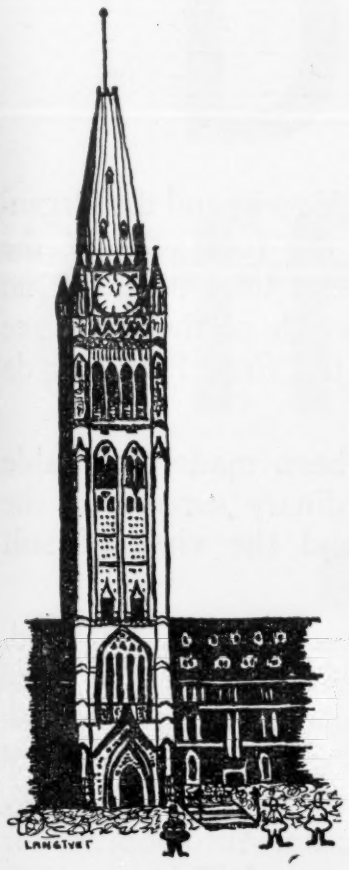
Increase the efficiency of your sales force through "phone power". Just give us a call.



Your Telephone Company

a member of the **TRANS-CANADA TELEPHONE SYSTEM**

Nation wide Telecommunication Service



Ottawa Newsletter

PATRICK NICHOLSON

What are the roles and responsibilities of a Crown Corporation? Should government enter into commerce or industry? and, if so, how and why?

It will be agreed that there are some functions of Government that should not be entrusted to private enterprise, for example, "the regulating of the national credit and currency in the best interests of the economic life of the nation." This must be a manifestation of a government's fiscal and financial policies, and as such is normally handled by a department of government. That, instead, a Crown Corporation, the Bank of Canada, was created to do this is simply a mechanical convenience.

There are some services to the community which, for sociological reasons, should be provided at a price too low to offer an adequate return upon the capital invested. Thus private enterprise, necessarily dedicated to the profit motive, would not enter such a field, and the Government is obliged to fill the gap—normally by means of a Crown Corporation.

In a class by itself, operating under circumstances of public service, economics, and national prestige, which call for special treatment, comes air transport.

In the countries where private enterprise moved ito this field in the early days, a government instrument has nearly always had to take over or merge with those pioneers. The high technical requirements in maintenance and operation, the common use of airlines and airports, the scantiness of passenger traffic, the high cost of freight, the indispensability of regular flights for carrying mail, and, most recently, the enormous and soaring capital cost of airliners, all these make air transport a field where other factors should take priority over profit. Hence governments were virtually forced into the business, which is rightly regarded as a true public utility.

The one outstanding exception is the U.S.A. And there a proliferation of competition between private operators, coupled with the cost of the factors mentioned above, caused the industry to earn last year only ¼ of 1% on its capital, contrasted to the figure of 10½% accepted by the U.S.A. Civil Aeronautics Board as "the measure of fair earnings" in the industry.

With the growth of long-range air travel, another factor entered the picture. Every international flight must have a terminal, with passenger rights, in a foreign country—which normally demands reciprocal rights. Thus there is international competition on nearly every flight linking two countries. This introduces the element of national prestige—another reason why airlines flying international routes should be state-owned.

Our own government instrument in this field is Trans-Canada Air Lines, now celebrating its 25th birthday. The great expansion in air transport has of course come since World War II. In that period T.C.A. has enjoyed considerable government support, and has been subject to only one over-riding order. "Don't get into the taxpayers' pocket," the late C. D. Howe, as the responsible Cabinet Minister, told T.C.A. president Gordon McGregor.

And T.C.A. avoided losses for nine years in a row, up to 1960 when the huge cost of giant 127 passenger jet airliners pushed it into the red. This was the price Canada paid for boasting the world's first all-jet airline.

By year's end T.C.A. was serving 39 Canadian cities and flying into 6 U.S. cities, 3 British cities, 5 countries in Europe, also Bermuda and 5 Caribbean Islands, on a total of 31,000 miles of air routes.

Last year T.C.A. earned almost three times as much passenger revenue as the world's largest railroad, our own Canadian National Railways. It carried 3,500,000 passengers for more than two billion passenger-miles, without a single fatal accident; journeys totalling as many passenger-miles made by automobile along Canadian roads would have resulted in 82 deaths and 2,254 persons injured. Long-distance motorists average perhaps 45 miles per hour, and, often, as they drive alone in big, hungry cars, their trip costs them as much as 20 cents a mile. Yet they could sleep, work, or relax in a T.C.A. airliner travelling at twelve times that speed for a cost of 3¾ cents a mile at excursion rates.

The price of an air ticket on our domestic routes is closely related to the cost of the service provided. But the price of travel on international routes is subject to agreement between the cartel of all the nations flying such routes. T.C.A. has argued that fares on, for example, the plush trans-Atlantic routes should and could be reduced. The volume of traffic did not immediately expand sufficiently to fill the big new jets, and T.C.A. believes that lower fares would attract passengers to fill much more than the present

Continued on page 254

Washington Newsletter

JAMES M. MINIFIE

General Charles de Gaulle, the European Common Market, Algeria, and the Organization for Economic Cooperation and Development: these are the four sides of the French trapezium—defined as a plane figure formed by four right lines of which no two are parallel. Any amount of discussion is possible as to which of the last three lines are the more important. There is no possible doubt about the first. President de Gaulle is France.

This is at once his and France's strength and weakness. His disappearance would create what Sir Wilmot Lewis once described as "Chaos, but not enough to create a world." The politicians complain about his excessive powers, but they flinch at the thought of condemning them. The man in the street complains about the cost of living—as well he might! —but he blames it on the politicians. General de Gaulle, one of the most artful of politicians, has attained the goal dreamed of by all, attained by few: he is popularly held to be above politics, never to stoop to them. The right-wingers attack him—literally, in the case of the Army extremists; yet he is their chief bulwark against communism. The left-wingers grumble; they have the popular votes, but they know that de Gaulle has too. Politically astute observers believe he could still win a popular vote of 70% or more. The general is well aware of where his support lies. He has been talking to the people, particularly in the poorer parts of the country—first in the Massif Central, then in Corsica and the southwest. He has that magnetism possessed by Churchill and FDR. People love and trust him.

He is the one man who can possibly resolve the Algerian emergency, which entered its eighth year November 1st. And this above all is what the French want, with the same insistance that the British wanted Churchill to win the war. The French are sick of the Algerian war, of the settlers, and of the Army dissidents, whom de Gaulle regards as an enemy more dangerous than the Arab rebels. The Secret Army Organization's strength lies in Algeria, among a few upper-crust and general officers; its following does not extend beyond the paratroopers, and does not include all of them. The conscripts, who must expect to serve at least twelve of their twenty-seven months in Algeria, have no use either for the OAS or for the French Algerian settlers, whose arrogance they dislike and whose courage they question. The Sahara? One Frenchman put it to me like this: the West pays heavy oil royalties to raggle-taggle Bedawi like the Saudi Arabians, why not to the Algerians, who have more claim to consideration? In short the Algerian question is soluble once the OAS has been crushed. De Gaulle is applying himself to this task with single-minded patience.

The loss of Algeria has been made acceptable to the French by the extraordinary success of the European Common Market and the vista of still wider triumphs.

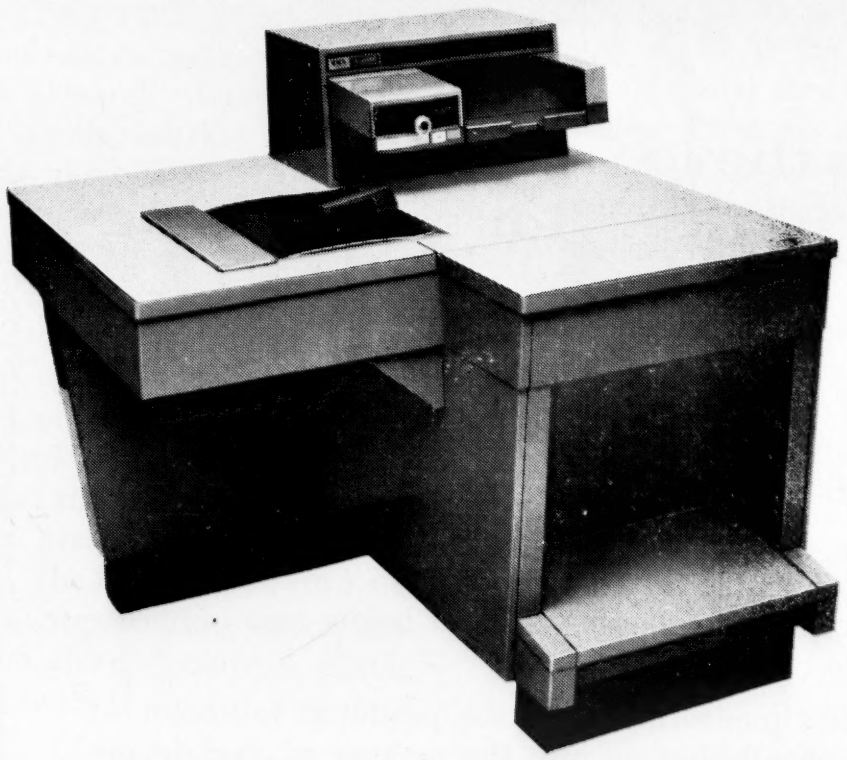
The Six have had a wonderful year. Italy led. Germany was not far behind. But France too can produce figures for the first eight months of the year that show electric power production up 6.8%, steel 5.2%, textiles 14%, basic chemicals 7%, cement 10%, electric machinery 8.4%, and so on. Automobiles, for various reason went against the trend. This year 17% fewer cars were produced. One of the reasons is the impact of foreign cars, chiefly Italian and German. This will increase as the ECM quota and tariff reductions go into effect. Coal, too, dropped 6%. But this was partly a reflection of the fantastic growth of French oil production. It shot up 93% to 11,900,000 metric tons for the first eight months. Of this African wells accounted for 10,594,000 tons, of which 9,488,000 tons came from the Sahara. This amounts to about one-half the current needs of French refineries. As a consequence of the increasing production of "franc petroleum," imports dropped from 80% to 65% of French needs.

Wheat did not come up to estimates. But the vineyards are deliriously happy. This has been one of the rare wine years. Hot dry weather just at the right time raised the sugar content of the grapes. A week of rain followed by Indian summer filled them out and gave the final benediction. This will be a classic vintage, in no way harmed by relatively small quantities; it will fetch classic prices. These successive acts of God have encouraged the wine merchants to take a firmer stand against a distressing tendency of government officals and temperance groups to announce publicly that wine is not very good for you.

This deplorable attitude received official cognizance in 1954 when the then Premier Mendes-France allowed himself to be quoted to the effect that milk was not only potable, but also worth drinking. As in the case of phylloxera, salvation may come from America, where recent studies suggest that milk had best be confined to sucklings. French vintners are not up on this development yet, but they have

Continued on page 254

Don't buy an office copying machine!



BORROW OURS. The Xerox 914 costs you nothing; all you pay for are copies ($105 a month for the first 2,000 copies). You'll be paying about 6¢ a copy—certainly no more and probably less than you pay now. And here's what you'll get: 1. Copies on **ordinary** paper. Copies that last as long as the paper lasts. 2. Fast copies. Seven copies a minute, automatically, by turning a knob and pushing a button. 3. Clear, precise copies. Anything you can see (colors, too), the 914 will copy in black and white. 4. No adjustments. No wet chemicals to add. The 914 is a dry machine. Bone dry. 5. Copies you can use. Every copy is a perfect copy. (In your present calculations, are you adding the cost of copies that wind up in your wastepaper basket?)

Call your Xerox representative. Come in and see the 914 Copier perform. Xerox offices are in principal U.S. and Canadian cities. (If our arithmetic doesn't convince you, the copies will.)

XEROX
OF CANADA LIMITED

20 MOBILE DRIVE, TORONTO 16, ONTARIO

Science breaks the ice . . .
for safe driving

Ice on windshields presents Canadian motorists with a serious annual hazard to safe driving. But now there is no need to chip away blinding ice after every sleet or ice storm. You simply reach for "PRESTONE" Spray De-Icer—a remarkable new product from the laboratories that developed "PRESTONE" Anti-Freeze.

This dramatic chemical ice-remover, packaged in an aerosol container, offers an exclusive formula that not only melts ice on contact, but actually prevents it from forming for hours—even at below zero temperatures. And, it is harmless to car finishes!

Union Carbide's pioneering work has produced hundreds of other new and unusual chemicals that go into the making of fast-drying paints, wonder drugs, wrinkle-free textiles and a host of useful things.

These are only a few examples of how modern chemistry helps make your life safer and more enjoyable. The people of Union Carbide will continue their search for new and better materials to meet the challenge of tomorrow.

"Prestone", "Eveready" and "Union Carbide" are trade marks

Union Carbide Canada Limited, Toronto 12, Canada, and Divisions: BAKELITE DIVISION—Phenolics, Epoxies and Silicones; CHEMICALS AND PLASTICS DIVISION—Synthetic Organic Chemicals and Polyethylene; CONSUMER PRODUCTS DIVISION—"Eveready" and "Prestone" brand Products; LINDE GASES DIVISION—Industrial Gases, Welding and Cutting Apparatus; METALS AND CARBON DIVISION—Ferroalloys, Special Alloys, Electrodes and Carbon Products; VISKING DIVISION—Food Casings and Plastic Film.

UNION CARBIDE

. . . a hand
in things to come

ORGANIZATION CENTER ANALYSIS

A leading management consultant describes an approach to the diagnosis and remedy of organizational problems. The effectiveness of this system for organization planning is, he says, that it strives to focus attention on the goals to be achieved by working with and through all key people in the company.

GERALD G. FISCH

In many corporations, the approach to organization has lagged behind advances in corporate planning, financial control, and information gathering. When it comes to solving problems which involve organization and people, many managers act according to two extremes. They either regard themselves as "experts" and tackle reorganization by the "seat of their pants," with slight indication of an orderly plan of attack, or they freeze into inaction, regarding reorganization as a process beyond their ken, possible only in the hands of an administrative practices expert.

In earlier times there was little need for effective, sensitive organizational adjustment. Product lines were simple and relatively homogeneous. Research and technological advances were slow, with years passing between the research done and the entrance of new products on the market. Effective total competition was only regional in nature for most companies — rarely national and almost never international in scope. Organizations were simple, not complex. Now this has changed; today the accelerated pace and complexity of business demands tight total managerial control. Corporate results, in the final analysis, are achieved only by the corporate organization—by people working harmoniously together, by the realization that the contribution of the organization in total can be greater than that of the sum of its individual parts. The effective adjustment of the goals of a complex organization to rapidly changing conditions has, therefore, become a matter of necessity, certainly for growth, if not for corporate survival.

There is no reason for companies to shy away from the job of analyzing and adjusting their own organization. Organizational problems can be diagnosed and remedied by the application of a simple, yet comprehensive, approach using what is, in part, an improved form of the well-known "description of key positions."

This technique, which I call Organization Center Analysis,[1] helps a company to convert corporate plans into reality and thereby to obtain the highly motivated personnel necessary to achieve success. The basis of the effectiveness of this method is that it strives constantly to focus attention on the goals to be achieved, working with and through all key people in the company.

REDUCING UNCERTAINTY

Organizations cannot be adjusted to meet new goals successfully unless the company operates on the premise that men cannot do jobs well and happily if they have no definite idea of just what their job is, if they do not know what is expected of them or what they must do to be personally "successful." Theoretically, this is a well-established concept.

Nevertheless, I have often found situations where large sums have been spent to describe every position of importance in the company. But, when I ask executives "What do you really do?" they will rummage through an overstuffed bottom drawer, come up with a manual, and pass it across the desk with some remark like "This will tell you what I am supposed to do." Then when I ask "Never mind what the manual says. What do you actually do?" the men grin self-consciously as if their secret had been found out. "If you really want to know," they reply, "it would take me all day to tell you. And my story would not bear much resemblance to the description of my job in the manual."

[1]Organization Center Analysis—The study of organization by taking each man in each position in turn as the center.

In other cases I have asked subordinate managers to tell me on what basis they receive a raise. Too often, the answer is "I wish I knew!" And in answer to the question "How do you know whether or not you are doing a good job?" the answer comes back, half confused and half annoyed, "I do not have any idea and I have no way of finding out!"

Organizational Center Analysis, or OCA, is an attempt to reduce the possibility of such situations occuring, and builds upon the present state of the art of organization planning. However, even the best developed OCA manual is ineffective (like any other corporate program) unless it is used by all levels of management and has the full support of the Chief Executive Officer.

PREPARING FOR OCA

Organization planning is, of course, not a guaranteed cure-all for converting corporate plans into reality. However, some form of planning is necessary for success. Using the OCA method of organization planning, we combine a human approach to people with the stern necessities of administrative control. When the exact functions required to achieve the established goals of a corporation are carefully delineated and positions are matched to these functions so that there is no *overelaboration*[2] and no overlapping of functional responsibility, then each member of the organization is given a clear mandate—even a challenge—to do his job well, provided each is well qualified for his task. He must, of course, be assured of rewards commensurate with the results he achieves.

One of the underlying assumptions of the OCA technique, then, is that people, especially management personnel, are most effective when they have a demanding job before them, provided, of course, the job is suited to their abilities and interests, so that they can do really well if they work hard. People are not content when they are treated as nice fellows, incapable of thinking for themselves—who blindly have to follow some position description written ten years ago for some other individual with different education, temperament, and desires. These truths are recognized by many competent managers. Applying them consistently in practice using simple workable techniques is, of course, the real challenge.

The OCA technique is composed of two basic steps:

[2]Overelaboration—The over-expansion of an organization in terms of numbers of people and functions; it implies the existence of an organization which is more grandiose and more extensive than necessary to achieve the stated objectives.

1) Top management *sets realistic goals* by determining definite operating objectives to be achieved by the company during the next five to ten years. These operating objectives will, of course, have been considered with respect to the past performance of the company to determine how realistic they are and how capable they are of achievement. Once these goals are set, the specific functions the organization will be required to perform can be delineated.

2) Next, management *establishes the organizational structure* and the manpower required to perform the functions decided upon at each stage of the corporate plan. At this point, the present personnel of the company are interviewed and evaluated to see how they may best fit into the proposed organizational structure. This is done in terms of the specific manpower requirements (qualitative as well as quantitative) developed for each position.

Now *the plan can be put into action* and adjustments made in the light of actual performance. Interviews with key personnel will, of course, pinpoint organization problems and suggest approaches to their solutions in the light of corporate plans. Nevertheless, organizations are not static, but dynamic; thus the functions and staffing of the organization must be periodically reviewed in the light of adjustments in objectives and changing conditions, so that the existing organization is always the best organization that can be developed for the task at hand.

Setting Realistic Goals

Just what specific goals, other than increased profitability, a company may set depends of course upon the particular situation that confronts each enterprise. Therefore, it is difficult to speculate upon all the possible goals that a company might set.

There is, however, one fact that a company might recognize as it sets its sights. This fact is that certain elements which bear on the successful conversion of plans into reality are controllable to a large extent, while other components are difficult to manage. Among the more readily controllable elements are such items as these:

- All systems and procedures in use;
- Organization directives and manuals;
- Manuals of corporate philosophy and policy;
- Administrative procedures manuals;
- Employee compensation and benefits;
- Techniques of long-range planning for sales and profits;

– A host of corporate practices, such as parking arrangements, company car assignments, expense account limits, and employee publications.

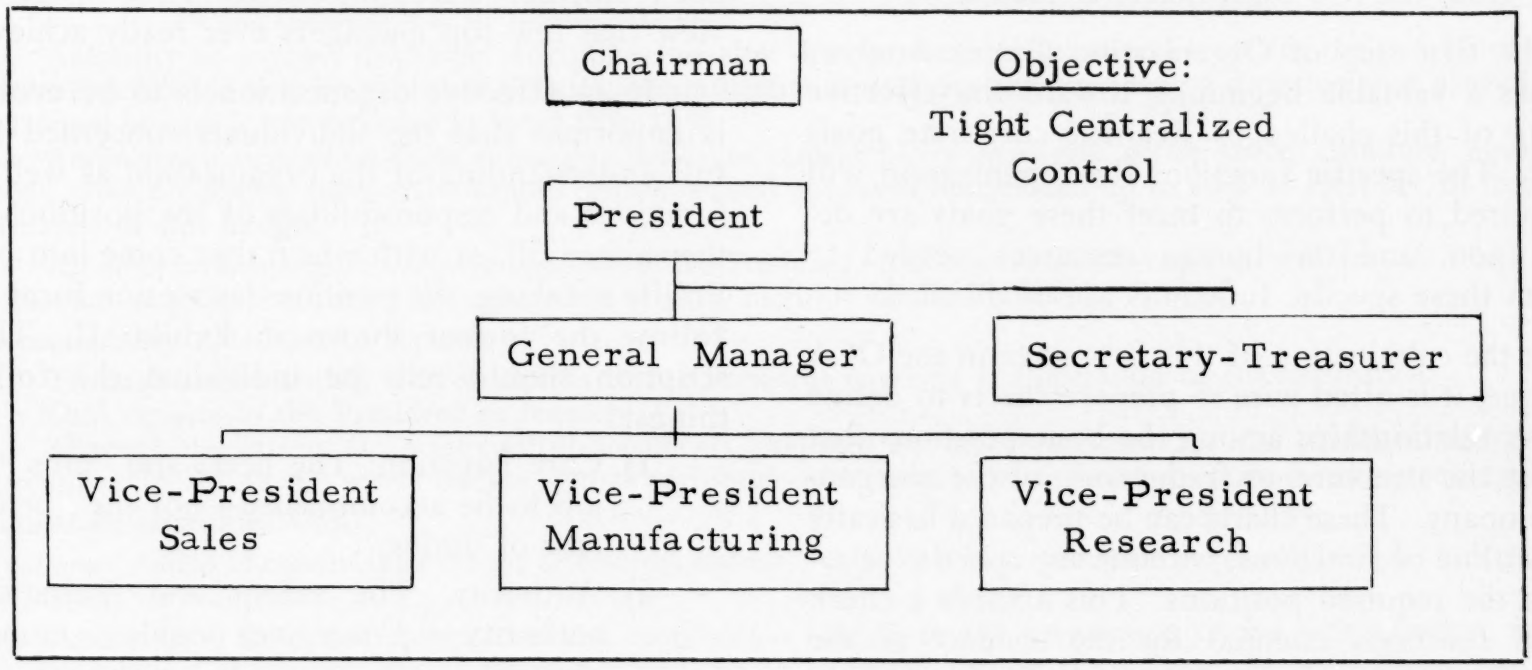
The consistency of the "corporate will," as expressed in these diverse ways, can go far in helping to create an environment in the company that will facilitate the efficient conversion of corporate plans into reality.

The second group of components influencing a company's effectiveness are more resistant to control: they are the human factors that influence business operations. But experienced administrators will instantly recognize that the following list of human factors is of even greater significance in the achievement of corporate objectives than the first group:

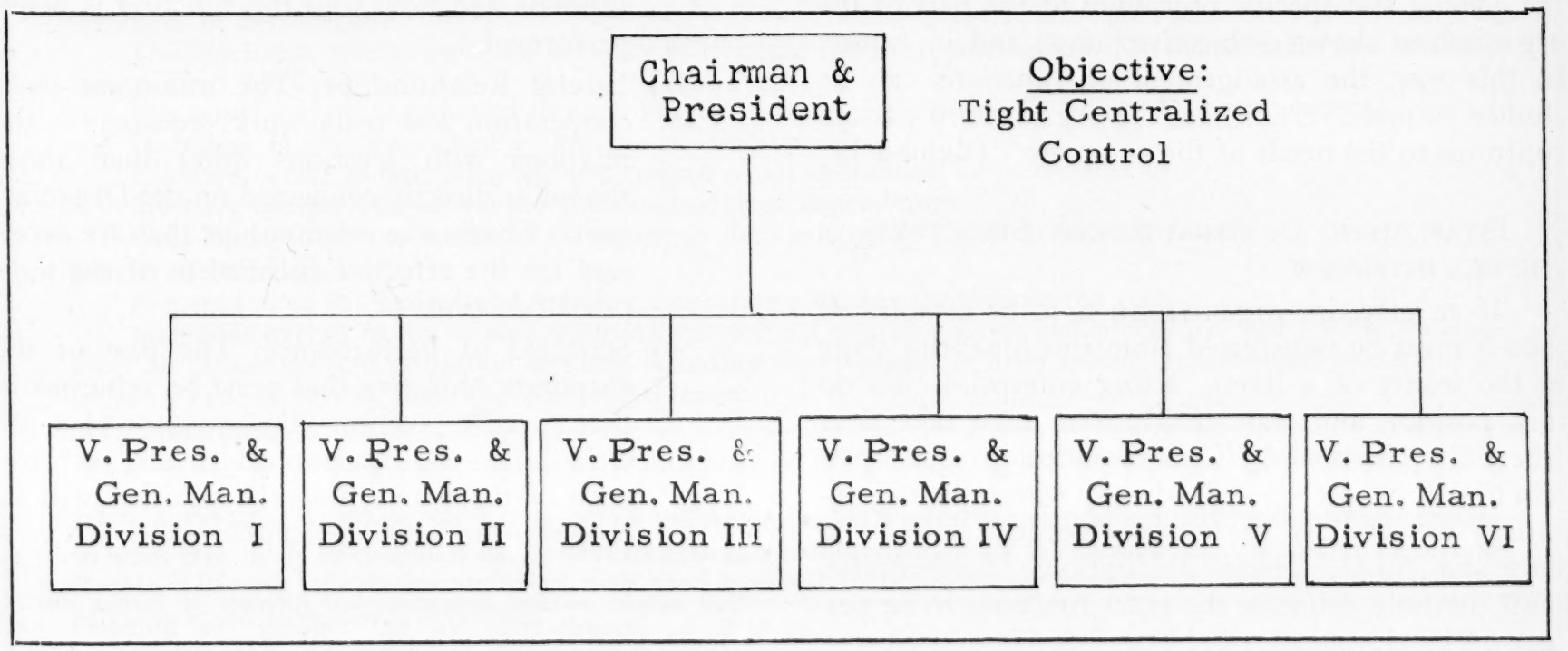
– The personal characteristics of operating division heads;
– The individual characteristics of management people in all key positions;
– The general make-up in terms of age, education, background, and experience of personnel at all levels;
– Corporate traditions and taboos held by each work group and by the company as a whole;

ORGANIZATION CHARTS EXHIBIT I

EXAMPLE IN WHICH OBJECTIVE MATCHES STRUCTURE



EXAMPLE IN WHICH OBJECTIVE DOES NOT MATCH STRUCTURE-
AUTHORITY DIFFUSED WHEN ACCOUNTING IS DECENTRALIZED.


Chairman & President
Objective:
Tight Centralized Control
V. Pres. & Gen. Man. Division I
V. Pres. & Gen. Man. Division II
V. Pres. & Gen. Man. Division III
V. Pres. & Gen. Man. Division IV
V. Pres. & Gen. Man. Division V
V. Pres. & Gen. Man. Division VI

- The morale and attitude of company people, both as a whole and as members of different formal and informal groups within the company;
- Social and extracurricular relations to the extent that they affect organization behaviour;
- Actual cooperative and coordinative relationships existing within the company.

It is not enough to recognize that some elements of successful operations are more readily controllable than others. The very elements which are subject to reasonable controls set the limits within which the second, more difficult to control, elements take place. Thus, when management fails to express clearly and consistently the corporate will through the more controllable elements, it cannot fail to have trouble arising from the less controllable elements.

The first step of Organization Center Analysis provides a valuable beginning toward the effective meeting of this challenge. Realistic corporate goals are set. The specific functions the organization will be required to perform to meet these goals are decided upon, and the human resources needed to perform these specific functions are established.

At the culmination of this first stage in the OCA technique, it is often wise to prepare charts to define the inter-relationships among the basic positions that compose the structure, or framework, of the reorganized company. These charts can be prepared basically as an outline of functions, without any specific reference to the required positions. This affords a check that all functions essential for the conduct of the corporation's business have been established. Such organization charts have been in use for many years. However, one addition is sometimes helpful. Each chart should state clearly in a very conspicuous place the general and specific objectives of the part of the organization shown—objectives now, and in future. In this way, the arrangement of functions can be studied to make certain that the organization pattern conforms to the needs of the company. (Exhibit I)

Establishing an Organization Structure

The OCA Interview

If an effective organization is to be established then it must be transferred from this blueprint stage to the reality of a living, acting enterprise. To do this, position and man descriptions must take over where the charts end. These descriptions must pertain to real people—people already within the organization, as well as those with needed skills who must be hired. These descriptions, furthermore, must precisely delineate the exact functions to be performed by the persons holding individual positions. While many authors have made this statement, few companies do this work with a method as concise as OCA.[3]

Businesses are not run by "the book." Thus, if you begin the job of examining the organization by turning to an organization manual, you may, in many companies, be starting unrealistically. But when you go to the key man—rather than to the manual—you get the current facts, the truth about how affairs actually are conducted within the company. By considering each key man and his position in turn, by encouraging him to talk about his work, his authority, his relationships with others in the company—all as if he were the true center of the entire company's activities (which to him he *is*)—you can soon construct a remarkably accurate description of the total organization. In effect, you now see the company not from the outside in, but from the inside out—a view that few top managers ever really achieve.

If an effective organization is to be evolved, it is important that the individuals concerned have a full understanding of the organization as well as the functions and responsibilities of the positions which they either fill, or with which they come into contact. Briefly speaking, the position description form should follow the format shown in Exhibit II. This description should tell the individual the following things:

i) Core Function: The heart and "guts" of the job to be accomplished—not the "petty" details of duties.

ii) Authority: The extent and limitations of authority — *power* over people — money and physical assets—power to get the job done.

iii) Accountability: Communications upward for executive control — the specific means by which this position reports to the immediate superior and how well the function is being performed.

iv) Lateral Relationships: The minimum basic cooperation and team work required — the relations with positions other than those shown as directly connected on the Organizational Chart—the relationships that are necessary for the effective fulfillment of the indicated function.

v) Standard of Performance: The part of the corporate objective that must be achieved in that specific position—the measure of a job well done—the basis on which the performance of the man filling the position will be judged—the basis of remuneration.

[3]See sample position description and diversity of format, Bennet, C. L., Research Study No. 33, "Defining the Manager's Job." American Management Association, New York, 1958.

ORGANIZATION CENTER ANALYSIS FORM

EXHIBIT II

Company:	Jones Co. Inc.	Department:	Controller	Incumbent:	H. Lockland
Division:	No. 2—Administration	Title:	Controller	Immediate Supervisor:	President

Core Function (A summary)

The development, operation and full utilization of an effective system of continuous cost controls throughout the corporation.

To render advice and recommendations concerning overall corporate objectives, policies and plans, insofar as cost control activities are concerned. The coordination, collection and dissemination of all information relating to cost control in all departments of the company.

Authority (Extent and limitations over people, money and physical assets).

In the discharge of corporate duties

1. Authority to assemble the annual corporate financial plans — sales and revenue budgets, all expense budgets and profit objectives; also capital requirement forecast as it relates to outlays for plant and equipment.
2. Authority to review all proposed capital expenditures.
3. Authority to check on and review financial performance according to plan including verifications of projected savings due to capital or other extraordinary expenditures.

All the above for review and approval by the President.

4. Unilateral authority to approve or disapprove non-budgeted department requests for items of over $500.00 up to and including $2,000.00 per item.

In the management of his department

1. Authority to engage, discharge, discipline and alter departmental organization except for the two assistant controllers limited only by published policies, administrative procedures and Presidential directives and provided personnel budget is not exceeded by more than 10%.
2. Authority to requisition from either purchasing or central office manager: office space, furniture, equipment, data processing time and supplies within annual approved budget and up to 10% in total for all items in excess of this budget.

All other actions require the *prior* approval of the President. All non-budgeted expenditures for all items—personnel, supplies, etc., must be reported in writing monthly to the President.

Accountability (Methods of reporting)

Through semi-monthly written reports to the President covering the operation of the department.

Oral reports to the President as required.

Through the various financial control documents, prepared by his department for the president and key executives, including the yearly budget, actual performance to budget and variances to manufacturing standards.

Lateral Relationships with

Treasurer: Assists in coordinating efforts of external auditors. Coordinates preparation of yearly budget. Secretary of Pricing Committee.

All Departments: Receipt of information and coordination leading to the preparation of the yearly budget, and implementation of department review of performance to budgeted figures throughout the year. Executive coordination to provide effective control over departmental cost and efficiency.

Operations Manager: Cooperate in the establishment of manufacturing standards and in the reporting of variances.

President: Provide summary information which reflects departmental performance and suggest courses of remedial action as and when required.

Standards of Performance

The timeliness, effectiveness and accuracy of financial control reports supplied to management as a basis for management decisions.

The actual savings experienced through implementation of plans and procedures for cost reduction.

Operation of the department within the budget allowed.

Effective twelve month planning and control of all operations.

Effective control over all capital and non-budgeted expendiutres.

Good human relations within the company in the discharge of the controllership function.

Details of Functions

Preparation of the budget and monthly comparative reports throughout the year.

Maintains overall review of cost reporting systems and related policies and procedures and advises management on proper use and utilization of same, including direct labour, indirect labour, departmental operations in terms of cost as well as sales, and cost and revenue.

Man Specifications

Age: 28-45. Education: MBA in Finance and Control or C.P.A. in management services with industrial engineering degree helpful.

Desired Experience: Minimum 3-5 years cost control experience metal fabrication industry, with proven capacity to work effectively to control costs. Two years proven administrative ability as controller or cost control supervisor.

Required Personality: Highly analytical with good human relations skill in working effectively with a variety of executives and lower level personnel.

vi) Details of Functions: An elaboration and expansion of the Core Function—specific statements as to the exact duties the position should and does perform.

vii) Man Specifications: A factual description of a man at work—hopefully, a man who can and will achieve his part of the corporate goal — factual information of a historical nature dealing with the actual (or desired) age, education, experience, and personality of the man who fills (or is to be sought to fill) the position.

An OCA position description, when perceived and written with insight, offers an easily understood analysis of the position, the qualifications required to fill it, and the performance standard to be achieved. Position by position, OCA will indicate quite clearly whether or not each job has been defined sensibly and manned properly so that corporate objectives will have a good probability of being achieved.

Taken in total, these realistic OCA position descriptions perform, as well, a thorough audit of the actual personnel needs of the corporation. Furthermore, in the OCA technique, while present personnel can usually be retained, the ultimate selection process is that of finding personnel to fulfill the needs of the enterprise from within and outside, rather than the opposite course of fitting the organization to available personnel.

DEFINING CORE FUNCTIONS

The interviewing is structured to the extent only that if follows the general categories of the OCA guide form shown in Exhibit II. The first area of questioning, then, deals with the core function and has three essential purposes. Specifically, it attempts to:

a) Determine whether each key person has a recognition that there are one, two, or three parts of his job that are considerably more important than others, and whether or not his attention is focused on the main job to be done in his particular position;

b) Discover whether the organization itself recognizes that in order to reach its overall goals, it must break its work down into core functions and then communicate to each man exactly what is the essential heart of his duties;

c) Take an overview of the findings of the interviews and other investigations, discover and reconcile discrepancies between what individuals think they should be doing and what they actually are doing and, furthermore, what the goals of the enterprise indicate as being necessary for them to do.

The OCA method of striking to the core of key individual's functions eliminates the more buckshot methods of many conventional position descriptions. A detailed list of duties, alone, usually fails to get right to the "guts" of a job. Listing how individuals should perform a thousand details of their job only blurs the focus, which should be sharply upon the true essentials.

In cases where the answers to the organization problems of a company are not obvious, it is useful to go to each boss-subordinate team and get each to write a description of his own job as well as that of his associate's. The descriptions can be exchanged between the men who then meet and reconcile discrepancies, with the analyst acting as mediator. Once they have decided upon realistic core function descriptions, the results go to top management to see how adequately these descriptions conform to the overall requirements of the positions they fill.

Later in the process, duties other than core functions are established and included in the Details of Functions section of the OCA position form in Exhibit II. Notice that these details are separated physically on the form so that there can be no confusion of them with core functions.

ESTABLISHING AUTHORITY

There is, of course, no real authority implied by the establishment of exact core functions, just as there is no real authority implied by the title a man has. You can know the core function of a specific job without having so much as a clue as to the real authority that can be exercised by the holder of that job. For example:

> The Managing Director of a company is told that his core function is to make a profit. Pursuant to this, he goes out and hires five people who he feels are necessary to the company. At the next board meeting, one of the directors asks him, "What are you doing hiring five people? Who do you think you are?" "I am the Managing Director," the man answers. "Well, do not kid yourself about that," the answer comes back, "You are not going to hire five people around here without authority from the board!"

Only when you say in specific terms to a man that he may hire people at such and such salary levels and in these numbers and under these specific

EXHIBIT III

CONTROLLER

General Responsibilities

The Controller is the chief accounting officer of the Company and reports to the Board of Directors, but, in the ordinary conduct of the Company's business, he is under the supervision of the President through the Senior Vice-President-Finance.

The Controller has responsibility for establishing the accounting principles, practices, and procedures to be followed by the Division and Subsidiary Controllers, and they are responsible to him for carrying these out. They are also responsible for consulting with him on any aspects of their activities in which his guidance is needed and for keeping him advised on pertinent matters. In addition to his responsibility for maintaining all accounting records, the Controller's duties include the development, analysis, and interpretation of statistical and accounting information to appraise operating results in terms of costs, budgets, policies of operations, trends, and increased profit possibilities.

Specific Duties

1. Organization Development. Develop and direct his supporting organization; and establish the duties and responsibilities for positions reporting directly to him. See that properly qualified men occupy the positions of Division and Subsidiary Controller.
2. Records, Accounting Policy, and Standard Practice. See that adequate accounting records are maintained of all assets, liabilities, and transactions of the Company; see that suitable systems are followed in compilation of product, manufacturing, distribution, and administrative costs; initiate, prepare, and issue standard practices relating to accounting policies and cost procedures; and exercise necessary functional authority to see that the policies and procedures are followed. Properly record financial transactions covered by minutes of the meetings of the Board of Directors.
3. Financial Reports and Appraisals. Prepare and interpret financial statements, cost data, and management control reports of the Company. In cooperation with the Senior Vice-President-Finance, assist other executives in appraising their activities in terms of financial results, pointing out significant trends in operations as indicated by analysis of the reports; and assist the executives in determining future policies based on applying sound business judgment to the conclusions deduced from such facts. Be sure that controls are adequate and current so that corrective action can be taken where necessary at the earliest possible moment.
4. Internal Auditing. Approve procedures for and direct a continuing internal auditing program.
5. Public Accountants. Cooperate with public accountants appointed as auditors in the execution of their program of independent auditing.
6. Inventories, Cash and Property. Establish or approve procedures and methods for taking and costing of all inventories. Review and approve procedures for handling cash and property so as to protect the Company from loss through negligence or dishonesty.
7. Appropriations and Budgets. Maintain adequate records of authorized appropriations, and check against the appropriations the sums expended pursuant thereto. As budget direction, in conjunction with other officers and department heads, review and approve budgets covering all divisions and activities of the Company.
8. Payroll Tax. Prepare and file payroll tax returns.
9. Office Methods and Systems. Coordinate clerical and office methods, records, reports, and procedures throughout the Company and its subsidiaries, and arrange for the development of standards for office and clerical activities, forms, equipment, and supplies for use throughout the Company. Develop clerical cost programs to insure that accounting and related records are maintained at lowest possible expense to the Company and its subsidiaries.

Source: Bennet, C. L. Research Study No. 33.
Defining the Manager's Job, American Management Association, New York, 1958, page 186.

circumstances, subject to these exact limitations—only then, do you define authority in any real sense. If a man is told his responsibility is for buying machinery, when what is really meant is that he can buy machinery for routine current operations up to $500 per machine, trouble is literally invited. And if you tell the treasurer that his responsibility includes investing the company's funds, how can he or anyone else know what this means? How much better it would be, for example, if the treasurer knew that he was authorized to invest up to $100,000 in certain preapproved stocks, or in any stock listed on the New York Stock Exchange.

There is no organizational system that can be made to work that does not define the authority that each key man may exercise. If authority is not defined, limited, and understood, it is almost axiomatic that each man will grab authority in direct proportion to the aggressiveness of his own personality. And that, in any man's book, is poor organization.

SETTING ACCOUNTABILITY

Establishing the limits of authority is essentially a communication from top to bottom. The setting of accountability requirements prepares for effective communication from the bottom to the top. On one hand, the corporation delegates specific powers, and, on the other, it completes the communication picture by effective reporting on how well this power has been used to achieve corporate objectives.

Little should be left to speculation. If it is thought desirable for a subordinate manager to submit weekly written reports on his performance, instructions to this effect should be included in the OCA position guide that is given to the man. The necessity for this is so obvious that I will not belabour the point. Unless subordinates report to those responsible for their performance on how affairs are going and what problems loom in the coming weeks, the company will be operating much like a blind man trying to catch fly balls. On the other hand, men are not mindreaders in that they can anticipate their superior's reporting desires without specific statements as to what they are.

CLARIFYING LATERAL RELATIONS

Many organization systems leave cooperation and teamwork to chance, except to assign the responsibility for them to the President. However, in most companies, coordination and teamwork cannot be left to one person. They are everybody's job. What relationship, for example, should exist between Sales and Manufacturing? What responsibility does the controller's department have for supplying helpful accounting information to all other departments?

Failure to define lateral relationships can lead to familiar situations of the type where the sales manager and the production manager are at loggerheads over production scheduling. In many companies, such unpleasantries can be avoided merely by making it perfectly clear to both men (in writing) that their functions are not autonomous, that they fit equally into the overall pattern of the company's operations.

In general, when relationships between departments are less smooth than desirable, it is—at least in part—that the company has failed to define the minimum relationships that must be maintained between any given position and any other position outside the ordinary lines of authority.

Much has been written about "informal organization." But I do not believe that an informal organization that is at odds with the carefully designed organization can exist if top management has done a truly effective job of organizing the company. Obviously, there is no need for an informal organization to get jobs done if the formal organization realistically defines jobs. Employees evolve their own relationship separate and at odds with the formal organization when they do not really know what is expected of them, when they are frustrated and unhappy, and when they cannot see their jobs in relation to the overall functions of the organization. And once these complex informal work groups are formed, they seem to grow ever more anti-management in attitude and increasingly more difficult to break up.

Since these informal organizations are created when top management of people is neglected, a good organizational plan will instruct specifically all key personnel that part of their job is to cooperate with one another vertically as well as laterally and that they have a responsibility for initiating and being receptive to cooperation.

Thus, coordination cannot be made the sole responsibility of the chief executive officer; there must be coordination all up and down the line. The OCA technique pointedly designs into the system the minimum lateral relationships necessary for the effective performance of the organization's functions. However, this does not mean that there cannot be cooperation between departments in other ways.

SETTING PERFORMANCE STANDARDS

OCA does not offer any new ways of setting performance standards. But, it does make sure that standards are set in definite terms and that each person is aware of the performance basis on which he will be judged. Only in this way can corporate plans be converted into reality. The OCA perform-

ance standards are realistic since both management and the individual have worked together in establishing the standards. The key point, which is made here, is that in all too few companies is there a fully integrated scheme for:

1. Breaking down corporate objectives into man-sized chunks;
2. Establishing individual performance standards;
3. Gaining acceptance of performance standards;
4. Establishing wage, salary, and employee benefit structures;
5. Appraising performance at regular intervals.

All these things are basically two items, and only two—opposite sides of the same coin:

1. Defining a realistic goal to be achieved;
2. Rewarding, or taking remedial steps on the basis of actual performance — promptly and predictably.

MAN SPECIFICATIONS

In the OCA process, setting man specifications emphasizes the formal qualifications of an individual as evidenced by his education, age, and work experience, particularly the actual results he has achieved in the past in divers work situations. Only in the case of personality need psychology eneter in, and then only in the most obvious sense: Does this man's past life indicate to his associates and to himself that he is most happy poring over rows of figures? Or is it obvious that he is the outgoing type of person who likes meeting and talking with people? But even so, OCA analysis refuses to label men in black and white terms, but rather recognizes that people are complex and attempts only an approximate estimation of individual personalities and capacities.

As for the rest of a man's qualifications, who can argue whether a man is young or old? Or whether he has a master's degree in mechanical engineering from an excellent university? Or whether he has successfully held down the job of assistant sales manager in a leading company? These are facts.

One might, I think, offer a valid argument that large companies (since individuals tend to get lost in the crowd) place perhaps too much emphasis on formal qualifications. But it is better to hang one's evaluational hat on something tangible like education and experience, than on intangibles alone like "I like the cut of his jib" or "I knew his mother well." Besides, today's business operations are becoming so complex and sophisticated that, if a man does not have a certain basic background, it becomes difficult for him to absorb them—as he might have years ago —that is, unless he is a genius, and, if he is even nearly so, the fact stands out so much that there is no problem in evaluating him anyway.

MEETING CHANGED NEEDS

If an organization becomes married to its existing people as the sole means of achieving its objectives for all time, it is heading for trouble, if not already in it. You hire an employee at a certain point in time to meet a certain need. It is unrealistic to expect that ten years from now that this employee will have grown at the identical rate as the company's needs for particular new skills. Thus, man power needs must be re-evaluated periodically (preferably once a year).

Evaluating the needs by the OCA technique leads to an audit, not only of the man power presently available within the organization, but of the hiring policies that have been followed in the past. The type of people a company has accumulated supplies the yardstick by which one can measure the effectiveness of past hiring policies. For example, take a highly technical company that has a predominance of technicians in managerial positions in such numbers that the technical functions are well covered, but with some managerial functions being performed quite poorly, or a situation where salesmen are running the company so that in certain positions where technical qualifications are necessary, the need for these qualifications goes unrecognized, or a company where an ex-manufacturing man is running things. Here, sales may not be getting the proper emphasis; he may not recognize or even know that market research exists, or, if he does know, he may not have thought about its use to solve his company's problems. In cases like these, OCA analysis of the man power situation may pinpoint the need for additional skills or for increased emphasis on certain neglected functions.

An equally common use of OCA man power audit is to find replacements for retired or otherwise departed personnel. The company says to itself "Whom do we have who fits these man specifications?" Three or four may be found sitting in the sieve after the panning operation is completed (there may, of course, be none). Each is interviewed; perhaps one seems to be highly desirable — almost too big for the job as a matter of fact. If this is so, then there is no reason why OCA cannot be used to make the vacated job bigger. New man specifications, larger core functions, increased authority, and stiffer, more comprehensive standards of performance put the job up to the new man's mettle.

INTERVIEWING PERSONNEL

The interview process can be used to describe the present working organization with all its strengths and weaknesses: What takes place in the interview process is essentially an experience of self-analysis for the present members of the organization. Carefully selected and thoroughly briefed interviewers talk with each key man, asking him questions as to how he perceives his job, how he performs it, and how he feels the job could be performed better. The man is pointedly assured that he may speak freely to the interviewer, that what he say of a personal nature will be kept private, and that the object of the inquiry is purely that of improving the conditions under which he works. Moreover, each man is made to feel as if he were, at least for the time of the interview, the very center of the entire organization. *To him, his job is the center of his working existence.*

Information obtained is entered on the OCA form; the general headings on this form are shown in Exhibit II. Then, what the man has revealed about his job and how he performs his work (as well as how he would like to perform it) are measured against the less subjective scale of Man Specifications on desirable age, education, personality, and experience.

PEOPLE ARE HONEST

Initially, when OCA is used, the interviewer learns, perhaps to his surprise, that there is seldom any lack of conformity between how a man perceives and performs his job and his own qualifications, limitations, and strengths. He can do less than he is capable of doing, but as an individual, alone he can do no more, Conversely, in a well organized company, the production of a group of men can exceed the sum of their individual capacities.

One might wonder if there is a discrepancy between what a man thinks he is doing, between his self-image, and the way he actually performs his work. In cases of abnormal personalities, such as we find in sanitoriums and textbooks, there might well be such a discrepancy, but in daily life people see themselves quite clearly. Most people are honest and have very few opportunities to talk about themselves and their work. They are naturally interested in themselves and their work. People are frustrated more often by a lack of opportunity to express their views about their jobs and the company than by the actual demands made upon them by the company. The interview process, in effect, turns on a relief valve, which often is difficult to turn off.

Many of us who have had too few psychology courses, or who do not understand people, become imbued with the notion that no one faces up to the truth of his own inadequacies. In a way this is true. People do not *talk* about their inadequacies if they can avoid it, but they will tell you honestly what they actually do. True, they do not evaluate what they say, but that is the function of the interviewer anyway.

An interviewer begins by asking a man "What authority do you have?" The man replies, "You know how it is around here" and sits silently. The interviewer pursues the lead, "No, I do not know how it is around here. How is it?" Then the man begins to open up, "Well, you know that old s.o.b. we work for—he makes all the decisions. We do not get a chance." The man goes on pouring his heart out to the interviewer—not drawing conclusions, but telling the facts of his job as he sees them. The interviewer notes on the form "Authority Delegated—None" and properly concludes, if he hears a similar story from other key men he interviews, that this is an organization of clerks.

In cases where the company is unlucky enough to have difficulty in finding a replacement, the opposite process can be gone through. The job can be divided in half and given to two men, who together possess the capabilities of the former incumbent.

CONCLUSION

The Organization Center Analysis technique thus is for management both a diagnostic tool and, if reapplied regularly, a continuing remedy for many organizational ills. Its uniqueness derives from its ability to define the minimum, essential factors necessary for *completely* communicating the will of top management to the entire organization. But this communication is by no means uilateral; the needs and wants of key personnel are taken into consideration. The demands made by the enterprise as it strives to reach its goals are blended smoothly with the demands of individuals for recognition, for certainty in their daily work. It shines light where often light is missing.

In its diagnostic function, OCA pinpoints causes of friction between departments and reasons for unusual achievements and successes; falling sales, quality dropoffs and high employee turnover, to the extent that they are caused organizationally, can sometimes be explained and a remedy suggested. OCA is a scheme that enables top management to get a view of how the company looks from the inside, to the eyes of employees who, for the first time perhaps, have been invited to tell how the organization looks to them from the center of their personal vortices of experience. It enables the company to reorganize its functions on the basis of this "inside" picture, to recognize problems caused by management's failures to communicate effectively just what the company's goals and plans are and how each man is expected to contribute toward their achievement and realization.

Perhaps the most potent reason for worrying about organization amounts to the same reason why each of us would worry about whether our family is a happy one. If we go home each night with an uncomfortable feeling that something is wrong, something we cannot quite put our finger on, then life to this extent is less worth living. So it is with the top executive who senses administrative discord and knows that the company's sources of power are being short-circuited somewhere and somehow.

The OCA technique insists that one way to create a happy and successful corporate climate is to demand of each key man the best that is in him and to arrange all tasks so that everyone is doing the work that suits his particular abilities.

This is the real challenge, the giving of the best that is in us and the luck of being in the right job to enable us to do so. And, certainly, a large part of a company's success comes from having it known that it offers an environment that makes realistic demands upon people and rewards, in turn, on the basis of predictable, stated performance standards, Such a company soon will attract the type of personnel who thrive on such a challenge and who, in fact, are searching for just such companies. It has little appeal for complacent people who are easily satisfied and wish to exert only the minimum effort. Only in this way can we have the best success in converting corporate plans into reality.

ARBITRATION AWARDS ON RETIREMENT RIGHTS

Two recent arbitration awards dealing with an employer's right to retire an employee have been handed down.

The first dealt with a Company which was introducing a pension plan with retirement age of 70. The arbitrator was asked to decide whether this contravened the master agreement. It was argued by the Union that the employer must show cause for discharge. The award, which was based on decisions of the Supreme Court of Canada and the Ontario Court of Appeal, was that age, as determined unilaterally by management, is proper cause for dismissal.

The second case dealt with the retirement of an employee at age 65. This employee had voluntarily joined a pension plan several years previously. The arguments advanced by the union were:

1. that the discharge was not "for proper cause,"
2. that the Company could not set a retirement age without discussing it with the Union,
3. that the Company by setting a retirement age changed the collective agreement and
4. that the Company by setting a retirement age could use it to circumvent seniority provisions.

The Company's arguments were:

1. that retirement is different from discharge and
2. that the employee by voluntarily joining the pension plan agreed to retirement at 65.

The arbitration board decided that the employee "was not dismissed, but lawfully retired pursuant to contract or on adequate notice."

—*Canadian Actuary Bulletin*, November 1961

Canada's Uranium Industry:

A Crisis of Survival

Atomic energy will play only a moderate role in the next decade or two, says Professor Hunter. In this article he discusses some of the principle factors governing the speed with which atomic energy will supplement and replace the conventional sources of power.

W. D. G. Hunter

Uranium is the raw material of the atomic age. Nature has endowed Canada with plentiful supplies of this key mineral. The history of the exploitation of these valuable resources is characterized by certain features that make uranium mining a unique industry, one that commands our attention, both for its inherent interest and for the problems that it presents.

The industry was created by the state. Its explosive growth was governed by the urgency that compelled a rapid build up of strategic stockpiles. Its construction affected the structure of the economy as measured by the discovery of huge ore deposits, the mobilization of large amounts of capital and of manpower, and the evolution of a new technology: its operations affected the performance of the economy in terms of the contribution of uranium to the national product and its importance in providing employment and earning foreign exchange.

Today, the uranium industry is facing a crisis of survival. A shrinkage of markets has produced severe imbalance between supply and demand. The present difficulties raise many important issues: the future role of government in the industry; improving the competitive position of Canada's mines through sales promotion and increased efficiency; broadening the market for uranium by the discovery of non-nuclear uses; raising the demand for uranium as modern science reduces the costs of nuclear-generated electricity.

It was of course the brilliant advance of atomic science that underlay the spectacular development of uranium mining. By 1939 scientists had shown the theoretical possibility of so arranging uranium as to cause an energy-creating chain reaction. Research was then directed towards inventing a reactor to achieve this in practice. Success in this venture came at the end of 1942 when Enrico Fermi released and controlled for the first time the "primordial energy of the cosmos." The atomic age was born. Work on reactors during the war aimed at the production of plutonium for use in military weapons; later it formed the basis of research efforts to produce commercial atomic power for peaceful uses.

Post-War Development

The mining of radioactive ores in Canada goes back to 1932 when the Port Radium mine of Eldorado Gold Mining Company began operations. In 1933 a refinery for producing radium was completed at Port Hope. The mine also contained copper, silver, cobalt, and uranium. There was no market for uranium, there being no uses for it.

This situation underwent a sudden and dramatic change following the decision by Great Britain and the United States to attempt to build an atomic bomb. Overnight, Eldorado found itself in possession of a vital war material. Besides having the most important and most readily available source of uranium, it also had the only plant on the continent capable of refining it. At the urgent request of the Dominion Government, Eldorado in 1942 commenced production of uranium for the Manhattan Project.

Two years later the enterprise was nationalized and complete government monopoly introduced. Security factors prompted this change. From 1944 to 1948 Eldorado, now a Crown corporation, had sole responsibility for increasing the output of uranium and for finding new deposits.

Meanwhile international relations had deteriorated soon after the end of the war. With the advent of the "cold war" the United States enlarged its atomic bomb programme. For its strategic stockpiles it required much larger quantities of uranium than had hitherto been forthcoming. A radical change was therefore made in Canadian government policy in 1948 when the mining industry was invited to prospect for uranium and to stake claims. This decision to encourage the growth of a private sector was based on the assumption that it would lead to a broader exploration programme and an increase in the rate of mine development. As an incentive the federal government, through its agent Eldorado, undertook to buy all uranium-bearing ores and concentrates, of a certain grade, offered to it by Canadian mines for a five-year period at $2.75 per pound of oxide. By subsequent amendments the guarantee period was extended to 1962 and the price raised to $7.25 per pound. This published price schedule served the purpose of enabling prospectors to estimate the value of deposits, but no uranium was ever bought under it.

At this time the Beaverlodge area of northern Saskatchewan was the centre of exploration activity. In 1949 Eldorado located a good deposit there and brought it to production in 1953. In the interval, government spokesmen were lamenting the lack of success experienced by Canada as compared with the United States and South Africa. It was not until 1952 that the first major ore-body, that of Gunnar at Beaverlodge, was discovered by a privately owned firm. Up to that time, therefore, results had been disappointing. But from then on events moved very rapidly, and by 1954 extremely large deposits had been found in Blind River, northern Ontario, and more modest resources at Bancroft, eastern Ontario, assuring that Canada would be one of the world's most important sources of uranium.

None of these ore-bodies could compare in richness with the pitchblende of Port Radium. Research had already shown the impossibility of making a satisfactory concentrate out of low grade ore without the aid of chemical leaching, a technique that called for a large investment in plant. A new departure was needed. The government offered special or premium price contracts. Under this scheme Eldorado agreed to take specified amounts of uranium, in the form of a high quality concentrate, from each mine able and willing to accept the conditions established in respect of costs, ore reserves, grade of output, and so on. The price offered to a given company took into account the estimated total cost of completing the mine facilities and producing the oxide stipulated in a five year contract, and was intended to cover all of these outlays and provide a profit for the shareholders. The first premium price contract was awarded to Gunnar in 1954.

By mid-1955 the mine-making possibilities had grown to such proportions that the government found itself faced with a situation where production might far outrun sales. After all, there was a limit to the amount of oxide that the United States Atomic Energy Commission would buy from Eldorado, and only modest sales could be expected in the United Kingdom. In order to keep Eldorado's commitments within the desired limits, deadlines were laid down for the awarding of contracts and for the commencement of mining operations. This policy had the effect of dividing uranium prospects into two groups, those for which contracts had been or were likely to be granted and all the rest. By introducing the cut-off the government effectively determined the size of the industry in terms of its output potential.

The contracts, all written at premium prices, required the delivery by the private mines of uranium oxide having a gross value of $1.5 billion. Adding Eldorado's quota for its own mines brought the total to approximately $1.7 billion. All of this was to be shipped by 1963, with no orders beyond that date in sight. To produce that amount of oxide in such a limited period of time, nearly a score of mines with mills and related facilities were constructed at an over-all cost exceeding $400 million. The mills were rated to handle about 43,000 tons of ore daily and turn out oxide amounting to 16,000 tons a year. In 1954 when Eldorado was the only producer, with two mines in operation, Canada's production of uranium was valued at $26 million. As the facilities in the private sector were completed, output grew by leaps and bounds until by 1959 it had reached a peak of $331 million.

Current Situation and Prospects

The short-term demand

The uranium mining industry was brought into being in Canada, and elsewhere, to satisfy the military demand for fissionable material, and its growth was dictated and its extent determined by the short-term demand created by political objectives. Nothing was more calculated to emphasize this than the announcement made at the end of 1959 that the United States Atomic Energy Commission would not exercise the options, contained in its agreements with Eldorado, to buy further quantities of Canadian uranium beyond the expiry of current contracts; it did not need it, but could obtain all the uranium it wanted from other sources, mostly in the United States itself. As a means of softening the blow, an

arrangement was made with the United States and the United Kingdom to delay completion of existing contracts until the end of 1966. To facilitate the stretch-out, part-payments were offered to the mines on postponed deliveries and companies were permitted to dispose of their contracts either by sales or through mergers. The aim of this policy was to allow the stronger, more efficient firms, with substantial ore reserves and large reproductive capacity, to continue operating and to prevent a sharp stoppage of mining in 1963.

As a consequence of the stretch-out policy, the industry in 1960 witnessed a drastic change in its organization. Through mergers and contract transfers, the number of firms was reduced to seven (Eldorado, Gunnar, Denison, Rio-Algom, Stanrock, Bicroft, Faraday) and many mines were closed. There was a marked fall in both output and employment, and these trends were expected to persist and even to be accelerated as one mine after another worked out its contract.

A REPRIEVE

Since then a new element has entered the picture. Of some significance is the existence of an agreement, negotiated in 1957 but made public only in the spring of 1961, whereby Canada is to supply an additional 12,000 tons of uranium to Britain at a price of $8.00 per lb. (making a total of $192 million), deliveries to be completed by the end of 1966. Since the contract was first discussed, Britain has accumulated a surplus of uranium beyond all foreseeable needs and has been pressing for a change in the arrangement. It is thought likely that negotiations, begun in the summer of 1961, will result in a much reduced price ($5.00 a lb. has been mentioned) and a postponement of shipments, with the tonnage remaining unaltered. The order is big enough to keep three 3000 ton mills in operation for about four or five years, and is about the same as the 1960 output for the entire industry in Canada. It is not known how the contract will be allocated among the various mines—it will be a political decision—but there can be no doubt that it will bring a welcome reprieve to a hard pressed industry.

The main problem facing the uranium industry today is excess capacity in relation to demand. Although the U.K. contract can be expected to provide temporary relief, it leaves the basic problem unchanged. From very small beginnings uranium mining was forced, by government policy, into rapid growth and emerged within the space of a few years as a large producer of the most important ingredient of atomic power. This demand was geared to military purposes. Its disappearance has created a hiatus.

SURPLUS OUTPUT

Considering the large capacity of the industry and the small amounts of uranium needed for Canada's experimental programme and planned investment in power plants, it is obvious that, for a long time, the domestic market will be able to absorb only a tiny fraction of the output of the mines and that, as a consequence, the great bulk of the output will have to seek export outlets in a world market characterized by an excess supply. Sales have already been made in foreign markets. Since 1958 it has been permissible to sell surplus output, under government control, to certain other countries, among them India, West Germany, Japan, and Switzerland. The amounts involved have so far been small.

OUR COMPETITIVE POSITION

This raises the question of the competitive position of Canada's mines.

a) Commentators in the financial and trade press have made much of the provision in every special price contract for writing off capital expenditures by the end of the contract period and have argued that this will place Canadian producers in a privileged and advantageous position vis-a-vis their competitors in that their plants will be "paid for" and thereafter "costless." But this provision will merely place the Canadian mines on a par with other producers; for other countries have also contrived to bring about the same result.

b) Canada has considerably larger reserves of ore than the United States, but grade is on the average less than half as good. As a partial offset, the Canadian industry contains far fewer firms, each enjoying substantial economies of scale. South African ore, though plentiful, is scarcely one quarter as rich as in this country, but uranium operations there begin as a by-product of gold mining; so there are no mining costs specific to uranium. Canada will have to meet severe competition from both of these countries.

c) Mining and milling methods are every bit as efficient in Canada as elsewhere, and the mining industry and the government agencies concerned with mining and the processing of ores are keenly alive to the necessity for research and innovation if they are to avail themselves of the most up-to-date techniques. Research is in progress to find new methods of ore dressing. These factors offer some justification for the view that Canada's uranium mines will be able to command a share of whatever market exists for their product. Several of them have in fact demonstrated their ability to bid successfully for orders. The market itself may widen through the

discovery of new uses for uranium, e.g., in steel manufacture.

There is no denying, however, that the mines are faced with the very real problem of survival. Already the industry has suffered an appreciable contraction, with structural and operational adjustments and grave social consequences for the communities dependent upon it. Almost inevitably it will undergo a further shrinkage and a greater concentration of production among the higher-grade low-cost mines.

The Demand Factors

Given the competitive position of the Canadian industry, its long-run prospects depend on the long-run growth of demand. This aspect of the problem centers on the future role of atomic power in commercial applications and the economics of nuclear reactors. Since the inception of the procurement programmes, the peaceful uses of atomic energy have come into prominence and firm strides have been taken, notably in Europe, towards large scale use of nuclear generated power. Once current contracts are completed, uranium mining will enter a period with military stockpiles adequate and civil power programmes scarcely under way. So far as can be foreseen, the market will be narrow until well into the 1970's with competition correspondingly sharp, and there is small hope that the excess output of the mines over the needs of civilian power installations will be taken up for government stockpiles. Although atomic energy may well rank in history alongside some of the other great inventions of the modern epoch, and seems destined in time to make a sizable contribution to the world's energy supply, it seems safe to say that it will play only a moderate role in the next decade or two.

Many attempts have been made by government spokesmen, officials of various atomic energy authorities and international agencies, and mining men to forecast the position of nuclear energy in the total energy picture of the future in terms of the annual amount of uranium, in tons, that will be needed by some given date. It is not proposed to pass on the merits of these widely different estimates, but to confine the discussion to some of the principal factors governing the speed with which atomic energy will supplement and replace the more conventional sources of power.

Conventional Power Sources

Basic to the whole question is the world economy's appetite for power in the future. Extrapolation from past consumption suffers from the defect of assuming stability in many elements subject to radical change. However, it is probably conservative to assume that the demand for energy will at least keep pace with increases in real GNP: this minimum rate of change may well be exceeded depending on population growth, improved standards of living, and industrialization of backward areas. On the supply side, it is necessary to consider how far future requirements might be met from conventional sources, some of which have uses other than as sources of power. There is still a large amount of hydro power that could be developed in the world, and at a unit cost considerable below that possible for atomic stations in use or planned.

Known coal and oil reserves are sufficient to cover needs for decades to come. For many countries, existing indigenous supplies will largely take care of tomorrow's demands. But these resources are unevenly distributed over the earth's surface. In addition, planning future power supplies involves taking account of the probable pattern of relative prices to be expected in each country; if, as is generally predicted, coal and oil costs continue to rise steadily, this pattern will shift in favour of low cost uranium. What makes it all the more difficult to forecast the future structure of energy supplies is that in some areas, e.g., in Western Europe, both domestic production and imports of every major energy source enter into the picture; the situation is further complicated by the intervention of political, social, strategic, and balance of payments factors.

The Economics of Nuclear Energy

The elements entering into the economics of nuclear power production are many and varied: the types of reactor systems, their size; the fuels used and fuel utilization; provision of associated facilities for fuel fabrication, and for recovery, reprocessing, and disposal of fission products; evaluation of by-products; the rate of technological change. There are, however, questions of a more general nature, which may be touched upon first.

Firstly, atomic stations serve best as base load stations. They are not suited to varying loads. Variable costs are likely to increase rapidly as the load factor falls, and their high capital costs require them to run on full load most of the day so as to spread these charges over a larger number of power units: peak demand could be taken care of by using ordinary stations. On the other hand there is a limit to the number of atomic plants that can be employed on base load: only a certain amount of electricity can be sold at dead of night. As a part of the possibility, which it raises, of cheapness and abundance, perhaps the greatest impetus to atomic power production will

be the avoidance of long distance electrical transmission. Atomic stations carefully disposed throughout an existing grid system could make for better balance in electricity supply and cut down transmission costs. During the development period, nuclear power stations may be introduced even if they are difficult to justify on economic grounds—political purposes and defence may be important in this connection, as well as prestige and the desire to acquire operating know-how and build up a corps of trained personnel for the future. Against this, large scale use for industrial and community developments may be delayed by reluctance to pioneer the installation of reactors liable to be out-dated in a few years.

Secondly, more than four fifths of the world's energy production is consumed in developed countries. It might be thought that the underdeveloped economies, in their future growth, would provide a large demand for nuclear power. However, while lacking power, many of these countries have large untapped stores of conventional fuels and deficiencies of cooling water required for atomic stations. In poor countries only small amounts of electricity are used, and there is no reason to suppose that they will suddenly emerge as high users of energy.

Any large scale plan for atomic energy involves a massive pre-emption of scarce investment resources. While this is a serious matter even for the richest areas, it is much more pressing for low income countries. Capital is not available for rapid expansion in such countries. Though they have the greatest need they have the least favourable pre-conditions for exploiting and benefiting from the new technology. Scarcity of capital will continue to be a handicap to growth. For these reasons it is unwise to stress the possible widespread impact of nuclear power in backward areas.

Thirdly, prospects are rather better in remote areas or outer fringes of advanced economies. In mining regions, say in the Canadian north, where power is vital and costly, many opportunities may appear as soon as a technically reliable plant becomes commercially available. It is also to be expected that further study and experience of the use of atomic power, particularly for naval vessels, will hasten the perfection of small "packaged reactors" and facilitate their adoption for land-based units of limited capacity and for large, fast merchant ships, tankers and ice-breakers, railway locomotives, and even aircraft.

CAPITAL COSTS

Returning now to more specific matters pertaining to the economics of nuclear energy, it may be noted that owing to technical developments the capital costs of nuclear generating capacity have already been reduced. Moreover, as in the construction of conventional type stations, there are significant economies of scale to be realized. Evidence shows that a reactor designed primarily for the production of plutonium would not have the most desirable characteristics as a producer of heat for the generation of power. The reactor is, of course, a replacement for the power station boiler furnace, and it is this substitution that adds so much to the initial capital outlays. Since the use of atomic energy as a source of power will depend, other things being equal, on the cost at which heat can be produced translated into cost per kilowatt-hour of electrical energy generated, the primary objective of all research programmes is to design a reactor with low capital and operating costs. Rapid advances are seen for the future following new reactor design and improved fuel technology. There is general acceptance of the view that plant costs will fall, but forecasts contain too many uncertain factors in connection with the assumptions upon which they are based, and the cost elements they include, to be meaningful. Certainly the first of the new stations in any system will have to carry a high proportion of the expenses of research and development, as well as much of the outlay for ancillary installations for processing the fuel and storing and disposing of fission products, and for such social capital as may be needed to service the plants.

FUEL COST

In the absence of price standards for the various sorts of fuel, it is difficult to value that part of the capital cost attributable to the initial fuel charge. The share of fuel cost in total cost varies with the type of fuel used, and this is largely determined by the type of reactor. At one end of the scale there is the slow reactor using natural uranium as fuel, and at the other the fast breeder using enriched uranium, plutonium, or the isotope U-233, which is artificially produced from thorium. Between these extremes it is possible to have an amazing variety of types differing in composition and fuel application, moderator materials, coolants, and methods of heat transfer. None of these has so far been proved to be the most economical.

RATE OF BURN-UP

One most pertinent factor on the cost side is the rate of burn-up. Economy requires that the fuel be irradiated for as long as possible, thus effecting a saving in the cost of fuel preparation, handling, and processing. Ideally a reactor should achieve full burn-up and maximum energy extraction, but the chain reaction involves the growth of fission pro-

ducts thereby defeating the principle of neutron economy. This, together with corrosion and radiation damage, makes it impossible to consume more than a small fraction of the charge in any known design of reactor. Chemical processing of fuel, to separate the fission products and refabricate it, is a difficult and expensive process. Re-processing and recycling will pay up to a point, after which the charge will be more costly than natural uranium itself. There is ample scope for finding better methods of managing the heat created in the reactor and for reducing the costs of re-cycling. Such improvements are bound to be reflected in reductions in operating cots. Unlike the waste products resulting from coal combustion, certain products of nuclear fission are still potentially productive and can help to cover the cost of waste disposal; extraction for industrial use of those which remain for some time at a high level of radiation would render disposal of the remaining bulk comparatively simple.

IMPLICATIONS OF THE 'BREEDING' PROCESS

Natural uranium contains only 0.7% of fissionable material, but this proportion can be increased by treating the uranium in diffusion plants to enrich it with U-235. Enrichment is costly and complex and calls for heavy investment in plant facilities and for reactors adapted to such exotic fuel. As things stand virtually all of the exportable enriched uranium must come from the United States, which is basing its marketing drive on the alleged superiority of reactors employing enriched fuels over those using natural uranium. To the extent that this drive is successful, Canada will be forced into dependence on the American market as the major outlet for the output of her uranium mines.

The prospect, although perhaps a distant one, of developing an efficient breeder-type reactor creates an element of great uncertainty concerning the future demand for uranium. While it still has to be shown that the fissile products of breeding can be turned out more cheaply than natural uranium, large scale energy production may eventually involve breeder or regenerative systems. Breeders will require a large initial inventory probably of uranium but possibly of thorium; by neutron capture, a new fuel is created in the reactor, plutonium if the initial charge is uranium, U-233 if thorium is used. As the supply of such by-product fissile materials builds up, there will be greater scope for developing more efficient reactors running on enriched fuels. In the long run, the implications of breeding are tremendously important and far-reaching; by a process of manufacture it is now possible to increase energy sources in the shape of atomic fuel. This can scarcely fail to bring a fall in the demand for uranium. Even if breeders are not successfully introduced, we can rely on changes in technology to reduce uranium requirements for a reactor of given power capacity. Progress of this kind, however, by making possible greater usage and application, can actually broaden the market for uranium. Thus the demand for uranium may increase as the efficiency of power reactors improves and the use of atomic power spreads because of lower costs. An even greater threat to uranium as the raw material of the atomic age is the fusion process, which holds forth the possibility of power generation using a thermonuclear reaction similar to that of the hydrogen bomb. But these developments would seem to lie far into the future; the evolution of the breeder and of the fusion process are best regarded as new peaks to conquer.

RICH POTENTIAL IN ISOTOPES

Although the potentialities of nuclear power for industry and for propulsion command primary interests, rich dividends are to be won from the use of by-products of reactor operations in the form of isotopes. The production of isotopes presents no technical problems and extension of their use is largely a matter of applied science: they are cheap and have an almost limitless role. Substances rare or non-existent in nature can be created in abundance by irradiation, and their application in medicine, biology, agriculture, and industry is expanding rapidly. In addition to isotopes deliberately produced, the waste discharged with fuel elements is a potent radiation source. Every step towards fuller use of the multifarious benefits of the prolific atom adds to the complexities of atomic power production, but increasingly effective by-product use is bound to reduce the cost of atomic power, although in the short run the problem posed may retard the rate of progress.

THE FUTURE

For all the outstanding achievements of nuclear science and engineering and those in prospect, cheap power from the atom is not "just round the corner." The rate of expansion of nuclear power will vary widely throughout the world according to the urgency of providing supplementary sources of energy when conventional sources are being strained. It will depend equally on the pace of technological change and on the availability of skilled men to further it.

Success in providing atomic power on a competitive basis calls for advance along a broad front encompassing, among others, improvements in plant design; in engineering and metallurgy as applied to

reactor construction; in the techniques of fabricating, re-processing, and enriching fuels; in the production of residual fission products and isotopes and disposal of dangerous wastes; in the efficiency of heat transfer and burn-up of fuels; and in the development of structural materials able to withstand high temperatures and combat corrosion.

In view of the uncertainties and imponderables surrounding atomic energy, it is not surprising that its future is still a matter of speculation. As nuclear systems are introduced and integrated into the field of large scale electricity generation, the demand for uranium will also increase at a rate determined by requirements for initial inventories and annual replacements. But it is impossible to say what the future demand for uranium will be. The development of the market is completely dependent on technological change.

APPRENTICESHIP IN THE NETHERLANDS

There is full cooperation between employers' organizations, trade unions, educational authorities and Government to secure better training of apprentices. The employers' and workers' organizations have formed about 30 National Apprenticeship Committees to regulate apprenticeship in various trades and industries. There are, at present about 52,000 apprentices in training under the control of these Committees. The net expenses of the schemes operated by the Committees are subsidized by the Government (70%) and the local authorities (30%). The total Government contribution in 1960 was £1,100,000. In addition the Government makes grants to employers who train apprentices. The maximum grant per apprentice is £20 and the total cost in 1960 was £330,000. The work of the National Committees is supported by similarly constituted committees at Regional and Local levels.

When the war ended it was accepted by all concerned in the Netherlands that the work of national reconstruction and industrial expansion depended in large measure on the availability of an adequate force of skilled workers, and steps to produce this skilled labour force were taken immediately.

EDUCATION FOR APPRENTICESHIP

65% of all boys entering apprenticeship possess the final certificate from a Primary Technical School. These schools provide a three-year course (12½ to 15½) leading to apprenticeship. The first year is a preparatory year: in the second year there is a division into three broad trade classes (metal, wood, and general); in the third year there is instruction in a specific trade or group of trades. This three-year course is essentially a continuation education course but it is designed or orientate the pupils gradually towards their trades. It is regarded by the Dutch apprenticeship authorities as fundamental to good apprenticeship.

CONTRACTS

These are compulsory and set out the mutual duties and obligations of employer and apprentice. The contract may be terminated if either party breaks its terms, e.g., if the employer fails to give proper training or if the apprentice fails to attend his technical school courses.

PRACTICAL TRAINING

This is done on the job in accordance with flexible training plans drawn up by the National Committees and enforced by teams of consultants (about 1 to every 200 apprentices). The aim of the plan is to ensure that the apprentice reaches a normal level of skill by the end of his training period. Each apprentice has a record book in which he records, day by day, the work he has done (including test pieces set by the National Committee). The instructor on the job checks and marks this book once a week and the consultant checks it once a month. The consultant also advises and assists in improving on the job training methods. These consultants, who must be experts in all aspects of their trades, are regarded as the key men in the Dutch apprenticeship system.

The Irish Business Apprenticeship Board, 1961

SYSTEMATIC MARKETING PLANNING

A 'written' plan, says the author, forces the planner to consider background, problems, objectives and goals, strategies, actions and expenses systematically and provides a framework within which better teamwork may be achieved.

J. M. FOGGO

Today many companies are turning to a "Marketing Concept" thereby giving much needed emphasis to Marketing Planning. But, "What is the Marketing Concept?" and "What is Marketing Planning?"

MARKETING CONCEPT

The Marketing Concept is built around the satisfaction of customer's wants as the basis for planning and controlling any company's operation in its quest to maximize profits and achieve the proper return on invested capital.

MARKETING PLANNING

Marketing Planning usually involves a team approach to solving interrelated problems that cannot be handled individually. It provides an overall continuing and systematic approach to marketing for a company. A marketing planning manager can utilize the areas of sales, advertising and public relations, research and development, manufacturing, engineering, accounting, and personnel in bringing his plan to fruition.

Actually, people have been using the Marketing Concept and Marketing Planning for years. Since the day of the first traders and panhandlers we have had these concepts with us. They are not new methods by any stretch of the imagination. However, it is necessary in this day and age, with business as complex and fast moving as it is, that companies have a *written basic plan,* which can be picked up .and followed through by any marketing orientated manager.

The written plan has many strengths: it forces the planner to consider systematically the objectives, goals, strategies, and actions with which he is dealing; it forces him to state explicitly the facts and problems as he understands them and to develop techniques of measurement he will use to record the progress of the plan as it is implemented; the plan also provides a reference point from which to begin and thus produces a framework within which better teamwork may be achieved.

WHAT A MARKETING PLAN SHOULD CONTAIN

Background: History, past and present, including such things as the market, its participation, product quality, product design, pricing, profitability, delivery and service, distribution, competition—known competitive plans, advertising and sales promotions.

Problems: A brief, concise statement of the problems that have evolved out of past company history and the present situation.

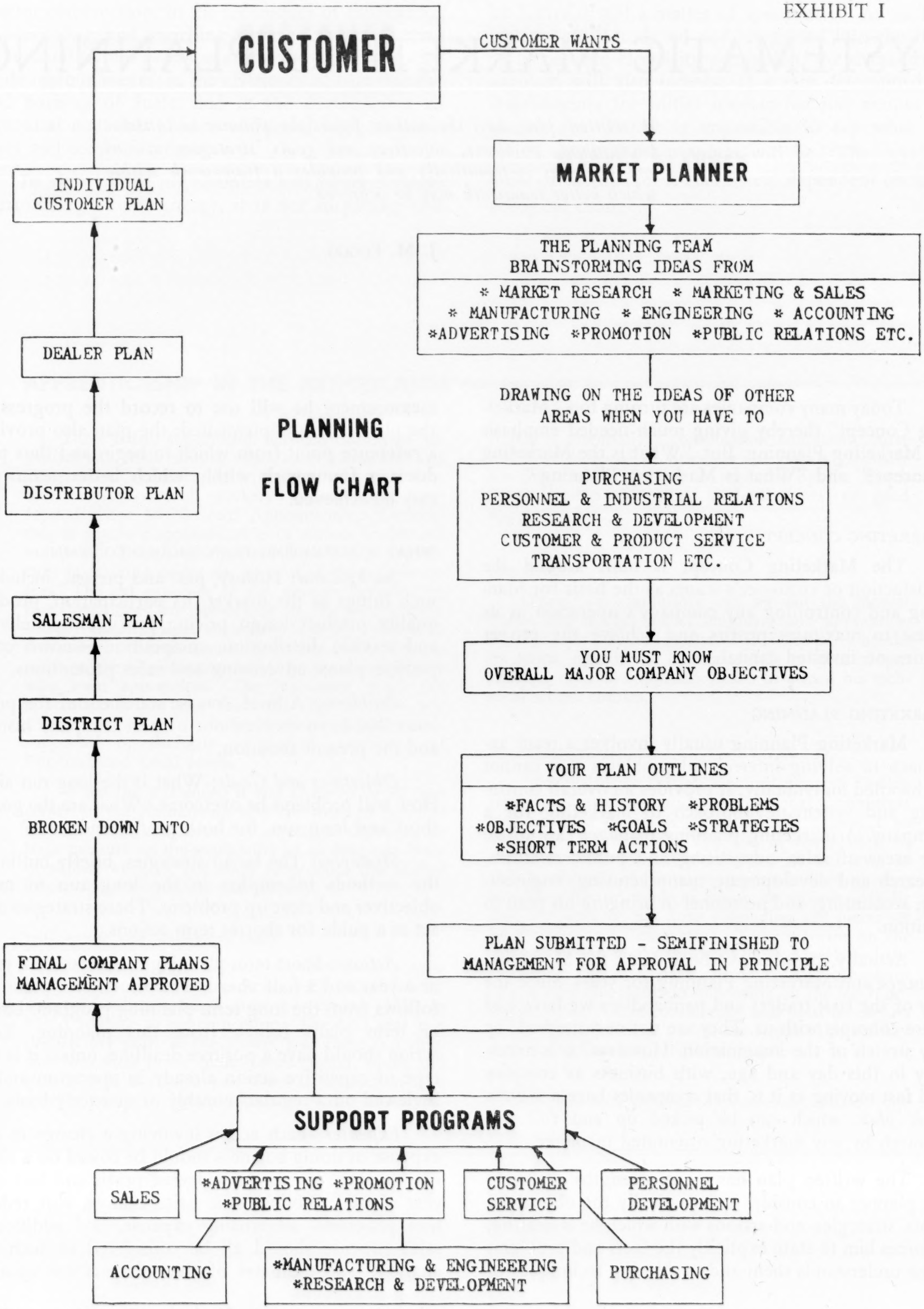
Objectives and Goals: What is the long run aim? How will problems be overcome? What are the goals, short and long run, for both profits and sales?

Strategies: The broad strategies, briefly outlining the methods to employ in the long run to meet objectives and clear up problems. These strategies also act as a guide for shorter term actions.

Actions: Short term planning for moves of a year, or a year and a half ahead. This short term planning follows from the long term planning program. Longer term plans follow from this planning. Each action should have a positive deadline, unless it is the type of repetitive action already in operation and is reviewed on a regular monthly or quarterly basis.

Expenses: Each action involving a change in the expense of doing business should be costed on a basis of "its effect on actual budgeted profit and loss one year ahead." Product mix, price change, cost reduction programs, advertising expense, and additional sales expense should all be considered in such an analysis. The estimates of these factors are usually

PLANNING FLOW CHART



done only one year in advance. On a product involving long periods of payback to meet capital outlay, it is necessary to make a broad estimate of sales costs and profits for a number of years ahead. Some companies forecast three years ahead, others five years, and still others ten years, or more.

Exhibit I illustrates the process of marketing planning; it shows that the first step is an examination of the nature of the *customer wants* and then indicates how the various members of the firm contribute to the final plan, which is then developed to satisfy the customer.

BROAD RESPONSIBILITIES

The marketing planner utilizes the services and coordinates the activities of all the departments of the company; he must develop a close relationship with these various departments.

Marketing planning is so vital to the long run interests of the firm as a whole that it must be conducted with imagination and vigor by a man who is conversant with all the functional units in the company and with the economic, political, and social conditions affecting the company's operations. The marketing planner must be flexible and receptive to new ideas in addition to being a capable organizer. It almost goes without saying that great patience is required.

PLACE OF THE MARKETING PLANNING FUNCTION

As with all organization questions, few general rules can be applied to locating in the organization structure, the marketing planning group. We have emphasized the significant role this planning can play in the company's activities, and it follows from this that the planner must be so located that his work will be constantly drawn to the attention of the firm's senior executives.

In many companies today this has meant that the operating executive in charge of all marketing activities is the immediate superior of the planner; the number of firms adopting this practice grows every month. This is, perhaps, the most logical position, but the marketing planner may also be made responsible to a financial officer, or a production officer, or the chief executive himself. It matters little where he is located *as long as his services are effectively used and as long as he can achieve the cooperation he needs to perform them.*

MARKETING PLANNING AND THE COMPANY

If marketing planning is to work in a company, the marketing planning manager and product managers (where these positions are separate) must be the dominant people. The engineering and manufacturing groups must become marketing conscious, realizing that without marketing advancement the whole company can stagnate. Engineering must be willing to continually meet demands for new product design. Manufacturing and engineering together must be constantly watching such factors as cost, quality control, and factory delivery time, as each helps to make continuing sales a possibility for the salesman.

The accounting department must become marketing oriented to a point where it can produce new types of analysis that are required in solving marketing problems. The kinds of records that are kept should serve the sales statistics needs as well as the needs of the accounting department.

The advertising, promotion and public relations functions must be utilized to the fullest degree, regardless of the type of product, or service. Many consumer products, utilizing a good consumer advertising program in many different media, can produce increased sales performance and increased profits, but they must be supported by a proper marketing plan.

IMPLEMENTING A PROGRAM

Implementing a marketing program may be a big task or a small one, depending on the approach used. Quality not quantity is the goal, and in the first year of planning one cannot hope for perfection: "Rome Was Not Built In A Year—Far Less A Day." It is a serious error to write a short term plan without first writing a long range plan, for the direction of the short run actions must follow from long run strategies.

POLICIES

It is essential to a company's planning program that top management lay down broad basic policies as to why the company is in business. The listing of the reasons for a company being in business, showing the known procedures and policies, will ensure that the planner does not lose sight of these factors in his planning program. The type of statement that says: "We are in business to make a profit or get a favorable return" is insufficient. It must state more meaningfully and in operational language the kinds of goals it wishes to achieve. What is a satisfactory return? What product lines are to be carried? What markets are to be served? and so on. Only this kind of statement will show the planner the direction towards which he must move.

PROCEDURE AND FORMAT

A complete procedure, with proper formats, must be laid out, so that people can get to the heart of the problem simply and quickly. Deadlines on the submission of the following must be set:

a) An outline of what the plan is going to cover at the outset.

b) A proper format for recording market potentials, company sales, price-changes, for three, five, or ten years ahead, depending on the type of product. Actual historical data or other source information for at least five or ten years should be given.

c) A form to help in the development of Budgeted Profit and Loss for each product group in the year ahead.

d) A capital expenditures budget should be provided for and tied into the plan. If this is used, it simplifies the whole approach to the capital facilities. Dollar limits will be set on broad outlines of facilities for manufacturing (with only the larger dollar items detailed).

The final plan should be completed in rough for oral presentation to management in a meeting at which the team of marketing, manufacturing, engineering, and accounting department heads should all be present, as well as other necessary department heads, such as those of marketing research and advertising.

Once management has given approval in principle to the general marketing plan, supporting programs should be written by advertising, public relations, sales, customer services, engineering, and manufacturing. Supporting programs can make or break the implementation of a planning program. When the final plan and support programs are approved, the finished program is written, so that stock boy, salesman, foreman and accountant know exactly what they are expected to do in making the program a success.

CONTROLS

A plan where no score card is kept is not worthwhile. Controls must be developed with accounting people to provide regular program checks. Good communications can effectively aid in making a better plan and can help exercise control over personnel.

It may be found in the analysis of a company's long and short term forecasting that existing methods and forms are not of a type to produce a proper plan. It may unfold that previous marketing, accounting, manufacturing, engineering, and purchasing policies and procedures should be changed. In summary the whole impact of future company sales can hang in the balance if each department does not implement its part of the plan. All areas should be checked so that the salesman is assured continuous support.

One can almost liken planning in an organization to planning on a football team. Everytime the key individuals from the bench go into the game the offense or defense will tighten up. In the trying minutes of the game these are the fellows who have the coach's plans at their finger tips. Supplied with these facts, and the proper team spirit, they can get the results and win. The plays, that planners develop, are year-to-year actions that help the company gain future growth and pile up points. If plans are properly executed and the offense is good, the defense can meet competition, and the chances are excellent. There are six questions that a planner and his team should continually ask themselves.

1) Is Management being given the true facts in plans, or is Management merely being told what it would like to hear?

2) Are there alternatives if things don't go our way? The company who can adapt to changes is the one that will succeed.

3) How well does the planner know people?

4) Is action being taken on the basic things that can help a plan? Are the customer and his needs known? Are regular checks made on quality, design, packaging, delivery, and service?

5) What is the company, division, or product line doing that is different from what they have done in the past years?

6) Have we all the facts available? If so, the decision must be made promptly, for indecision can become a disease.

There is an age old expression for the planning team to remember: "Luck is in the corner where preparation meets opportunity." Much of the gambling in marketing planning can be eliminated by using a continuing and systematic approach to your marketing problems.

Dynamic Bond Portfolio Management

The author discusses the professional management of large pools of corporate or investment capital and suggests that by broadening and deepening the market for bonds in Canada, active trading can in fact create better conditions for marketing new issues, as well as provide more opportunities for the disposal of outstandng bonds.

D. H. Fullerton

One of the notable features of Canadian bond and money markets in recent years has been the growing sophistication of institutional investors and corporate treasurers. In the past decade a broad market in short term funds has developed, with the Bank of Canada playing an important role as innovator and mentor, and many corporations have become active participants in that market as borrowers and lenders. In addition, many large institutional investors, such as insurance companies, trust companies, and pension funds, are no longer content to remain permanently wedded to their initial purchase of longer term bonds, but trade actively in the market, vary the term and nature of their holdings according to their views of interest rate trends, and make more effective market use of their economic knowledge and bargaining power.

The improvement in institutional investment management has been accompanied by a growing maturity of the investment industry itself. The average bond salesman or trader in 1961 is more informed about events and their effect on markets, and about the workings of the monetary system, than his predecessor of a decade or more earlier. In part this may be due to the larger volume of transactions and increased volatility of bond prices, which provides greater rewards for being right and stiffer penalties for being wrong. Moreover, the industry did little recruiting in the 'thirties and 'forties, and the rise of the postwar crop of college graduates to intermediate and senior positions may have led to a better comprehension of the role of economics and government policy in the movement of bond prices. The demands of institutional investors for intelligent advice has also compelled salesmen to acquire an expertise about the market or lose business to those who can contribute something to the buyer's own understanding of events. In effect, the relation between the dealers and investors has been complementary, with each learning something from the other and pushing the other to experiment with new ideas.

This cross-fertilization process has helped to bring about a maturing of the market. Yet one would be reluctant to suggest that the market has by now reached a reasonable level of maturity, that all dealers provide equally cogent investment advice and competent service, or that institutional investors are managing their funds with the maximum skill and finesse. It is the purpose of this article to discuss one aspect of this question, the professional management of large pools of corporate or investment capital. The article divides naturally into two parts, although the two can by no means be regarded as watertight compartments. The first concerns the investment of short term funds and short term borrowing, largely by business corporations, and the second the management of the long term bond portfolios of financial institutions, corporate pension funds, and similar bodies.

The Short Term Market

In the field of short term lending and borrowing—the money market—the advances in a few years have been substantial. The market developed originally out of the chartered banks' use of Government of Canada treasury bills, notes, and short term bonds as a source of liquid reserves. In 1953 and 1954 the

authorities took action to broaden the market in treasury bills by providing special facilities to finance dealer inventories, by increasing the size and frequency of the issues, and by making the purchase and sale of bills easier for private and corporate investors. These efforts met with some success; the general public (non-bank, non-government) holdings of treasury bills rose from a level of $28 million at the end of 1952 to $755 million by the end of 1959. They have since declined in favour, mainly because of the availability of other forms of short term instruments providing a higher yield, and at the end of September 1961 the public holdings of bills stood at $335 million. Short term Government bonds are a more important factor in the market than bills, however, and must be considered as the principal vehicle for the short term investor. On September 30, 1961, there was a total of $2,935 million of Canada bonds outstanding of a maturity of less than two years. Approximately half of these bonds were held outside of the banks or Government accounts.

A VARIETY OF CHOICES

Other forms of instruments have proliferated with the growth of the market. Finance company notes were probably the first major alternative to short term Government bonds and bills available to investors, and the initial transactions in finance paper took place late in the 'forties. By 1951 this paper had begun to have an impact, and the total amount outstanding increased steadily for the following six years. Other corporations became interested in the market as a source of funds, and many of these, including oil and grain companies and retail chains, have sold their promissory notes to corporate and institutional buyers.

Another vehicle that has made its appearance in recent years has been corporate loans to investment dealers against bonds or other short term securities. The form the loan takes is a sale and repurchase agreement, whereby the dealer sells bonds to the investor and contracts to buy them back at a fixed date and price (or on call) to yield the investor an agreed rate of return. These "buy-backs," as they are usually called, allow the dealer to finance his inventory at lower rates than those charged by the banks. At the same time they give the short term lender a flexible instrument suited to his exact requirements, with a return usually higher than that available on the bonds or treasury bills used in the transaction and without the risks of market fluctuations.

Another fairly recent development is the issue of interest bearing term deposits and certificates by banks and trust companies. Periodically the short term issue of foreign governments (mainly U.S. and U.K.) are attractive relative to domestic issues; the foreign exchange risk is sometimes hedged by a forward contract, sometimes not. Canadian provincial governments have sold treasury bills and discount short term bonds in the market, and the British Columbia government recently brought out a large issue of transferable parity bonds that are redeemable at par.

While this catalogue is not complete, it does indicate the variety of choices available to someone with money who wants to earn a return for a definite period, or to have his money out on call. It is not surprising that corporations have become increasingly reluctant to leave money on deposit in banks when it could be employed more advantageously elsewhere; thus the corporation treasurer has come into his own as an investor. The introduction of term deposits by the banks probably reflects an attempt to attract back some of the corporate deposits lost to the short term market. Nevertheless, the employment of short term funds in the money market has been limited mainly to the larger corporations, and not all of these are making full use of their liquid resources. Quite frequently, senior officers are not aware how profitable sound money management can be, or may be reluctant to venture into a strange new field.

IT PAYS TO KEEP IDLE MONEY WORKING

A good rule of thumb for rapid calculation is that $100,000 lent at 3.65% earns $10 in one day. Suppose a firm receives a large payment of say $1,000,000 on a Friday, but needs it Monday to make a payment. In an hour this money can be placed with a dealer for the weekend (the current rate is close to 3%), and the money is repaid promptly on the Monday with $250 or so interest accompanying it. In fact, if the payment on Monday is to be made by mail the cheque will not be cleared until the following day at least, and the money can be left with the dealer until Tuesday—another $80!

MANAGING THE SHORT-TERM PORTFOLIO

How can a corporation go about initiating or improving its use of the short term market? The first step is to find a person to operate the portfolio who has some background in the market, or who has enough other experience in securities to appear capable of on-the-job training. This latter is not as

difficult as might be thought. Many of the large investment firms are prepared to go to a great deal of trouble to help a corporate treasurer or financial officer learn the various ways in which money can be invested for short periods. Their objectives may not be entirely altruistic, but no firm is likely to give bad advice in the hope of some temporary financial advantage. Buyers have long memories, and business usually gravitates to the dealers giving the best counsel.

The second step is to allow the person selected full discretion in the management of the short term portfolio, although he will require definite terms of reference on such matters as the quality of the paper he buys and the limit on any particular form of investment. Decisions in this business have to be made very quickly. If each decision has to be cleared by senior officers or by a board, not only are many attractive investment opportunities lost, but the manager does not acquire the necessary skill and initiative to operate effectively. Moreover, he tends to avoid considering proposals which have to be presented to his board (and which will require work on their part), especially if he feels that the transaction may be impossible to consummate by the time the decision is reached. The manager of the portfolio should be given every chance to run the portfolio himself, and his performance will be easy enough to gauge by the income earned on the money. It must be emphasized that the skills required are of a specialized kind, including the ability to act quickly and confidently and a capacity for getting to know the people in the business and the alternatives open. Not everyone can be a successful operator in the short term market.

The administrative arrangements should be as simple as possible. The funds are handled on a day-to-day basis, and the paper as well as the money must move quickly between the company and banks and trust companies, often located in different cities. Instructions should be clear and explicit, and all those concerned, down to the messenger who carries the bonds, notes or cheques, should be impressed with the cost of delays. Finally, the successful operation of a short term investment portfolio requires accurate forecasting of cash receipts and disbursements by days for two weeks or even a month ahead. The maturity of investments is phased to coincide with the anticipated ebb and flow of corporate cash balance. Certain minimum bank balances are normally required as part of the arrangements between the bank and the company, but contingencies can be met by holding part of the invested assets in loans that are callable one or two days ahead, or even callable on a few hours' notice.

BORROWING IN THE MARKET

Corporations have been more reluctant to tap the short term market as a source of funds than to invest in it, although, as indicated earlier, that reluctance has not been shared by the finance companies. There is very little statistical material about the extent to which corporations borrow in this market, however, and it is difficult to judge the growth in the borrowing of non-financial corporations that has taken place. Because there are certain risks and problems, as well as advantages, one hesitates to suggest that there should be any wholesale adoption of a policy of short term borrowing by corporations. The first step certainly should be to consult an investment dealer and a lawyer about the problems involved.

One problem is that the supply of funds by lenders is not static and will be affected by the relative ease or tightness of money in the system. The notes of the larger corporations almost always have a ready market, even in periods of financial stringency, but the smaller and less well known companies may find it impossible at times to borrow even at very high rates. Paradoxically, because of the implications about the quality of the borrower, buyers tend to be more frightened than attracted by very high rates. The initial entry into the market by a corporate borrower may also require certain legal formalities, such as the preparation of a prospectus and trust deed, the provision of collateral as backing for the notes, and the setting up of arrangements with investment dealers to market the notes and to act as intermediary between the company and buyers. Against this must be set the advantage of the lower rates usually prevailing in the short market. The difference between long term and short term rates may at times amount to as much as three per cent, although the commission paid to dealers in marketing the short term paper may make short term borrowing more expensive than the superficial comparison of rates would suggest.

CRITERIA FOR BORROWING

Whether a corporation should borrow in the short term market depends on its own particular circumstances. Certain criteria, however, can be established. The first is that short term borrowing is most suitable against assets that are themselves short term and self-liquidating, such as acceptance paper, accounts receivable, and inventory. It is not surprising that the finance companies have been active in this field, and indeed the bulk of the short term borrowing by non-financial corporations has been against inventory and receivables. It is generally regarded as a questionable practice to borrow short to finance

long term capital projects, although some Canadian capital projects have been made possible by bank loans that were nominally short term, but that proved eventually to be somewhat longer. It may be that corporations should take a good look at this aspect of the conventional wisdom because there are no obvious reasons why a large and financially strong company could not finance part of its capital requirements cheaply by short term borrowing of a revolving nature.

The other requirements for borrowing in the money market will be clear from the above. A proven record of financial responsibility and good earnings, which usually means some maturity and reasonably large size, is mandatory if any large amount is to be borrowed. The corporation should have access to some emergency source of funds should the supply from short term lenders be suddenly reduced; this may be standby bank credit, the ability to call on a foreign parent company, or pledged assets that are liquid enough to be borrowed on at higher rates or sold. Borrowers in this market also find that it pays to carry out some quiet wooing of prospective lenders and dealers by personal calls to discuss the company's progress, and by the provision of a flow of up-to-date financial information that has a bearing on the quality and the backing of the notes.

Management of Longer Term Bond Portfolios

The discussion up to this point has centred around the short term market. The management of the portfolios of longer term securities presents similar problems and requires talents in the manager of the same kind as those possessed by a 'successful' short term investor. In fact, many corporation and institutional funds are managed by individuals who operate simultaneously in both short and long term markets.

There are some differences, however, and these should be made clear. One essential difference is that the decisions required for a long term portfolio are usually less urgent, although frequently the desired allotment of a popular new bond issue can be obtained only if the fund manager is able to reach a quick decision and place orders promptly with dealers. A second difference is that bonds and similar instruments generally form only one part of the normal long term portfolio; one of the most important decisions facing institutional funds concerns the share of the portfolio to be placed in bonds and the proportion to be invested in equities, mortgages, leasebacks, and so on. In the short market there are competing forms of investment instruments, but they are similar in type and term. A third distinction is the opportunity to vary the average maturity of the long term portfolio to take advantage of trends in the interest rate cycle. Judgments of this kind are not normally required in making purely short term investments.

Managing the Long Term Portfolio

We turn now to consider the form of fund management that is likely to produce satisfactory results. It is clear that there can be very wide differences in approach, as any study of the management of existing institutional portfolios will show. Some portfolios are handled by one person with complete discretion to buy, sell, or trade the component securities. Some institutions, such as the large life insurance companies, have staffs of analysts and bond experts, who reach most decisions on a committee basis. Still others delegate responsibility for management to trust companies, banks, or professional advisers who are organized to provide a number of funds with the type of management given by a large institution's investment department.

The size of the fund and its broad policy objectives will affect considerably the form of management required. An institution investing in new large projects (and frequently in more than one country), or buying new corporate bond issues, certainly needs specialists capable of appraising the projects, the risks involved, the quality of the borrower, the proper levels of interest rates, the asset coverage, the sinking fund requirements, the call provisions, the terms of the trust indenture, and so on. The appraisal of marginal municipal credits also requires research and study. Yet the bulk of bond transactions in the Canadian market are in the obligations of federal and provincial governments and of well known and proven municipal and corporate names. In the light of this one wonders if perhaps the large-staff, many-committee approach has not been somewhat overdone. Some members of insurance company investment departments with whom the writer has talked have in fact suggested that more effective results could be obtained if staffs were reduced in size but more discretion given to officers. Many felt that the committee system inhibited the development of independent judgment and tended to encourage some of the more capable but individualistic people to head out for a less restrictive environment. This is not universal, of course, because many large institutions do give their investment staff wide discretionary investment powers, and, although the management of Canadian financial institutions has a well-earned reputation for being conservative, it is in some respects more flexible than that of many such institutions in the United States.

The other extreme, to grant one person complete autonomy, also has its dangers. With too heavy a burden of responsibility, a manager may become excessively cautious because he alone is responsible for the mistakes. The best manager will make errors of judgment, and, if he is right 80 per cent of the time, he will be doing very well for his fund. At the same time there are very few 80 *per-centers* around, and an incompetent manager given considerable power can be very expensive. Even if he is fairly conservative in approach, sins of omission can sometimes prove more costly than those of commission. One cannot help but observe also that investment buyers (like buyers in other fields) are exposed to temptations of one kind or another, and too much authority without some supervisory control could lead to trouble.

A compromise between these two extremes has been adopted by a number of institutions. One person manages the fund (in a large fund there may be two or three people covering different areas) and is given a considerable amount of authority to buy and sell securities. Overall policy is set by a board or committee, selected either from within the institution itself or from outside experts with a wide experience in investment matters and preferably with independent sources of investment information. If the committee is not drawn from the institution, the manager usually reports transactions to the board by mail and periodic meetings are held to discuss possible changes in policy. When urgent decisions are required the board may be consulted by telephone or telegram, and it is desirable that one person on the board (usually the chairman) be given authority to make decisions when the matter is so urgent that there is no time to reach all board members. If the committee is internal, there should be arrangements established for fast consultation or the calling of *ad hoc* meetings at a moment's notice. Under this regime the investment manager has a great deal of freedom, but has a responsible committee to fall back upon in reaching decisions in areas outside his own terms of reference, to share in the responsibility for the success or failure of the management of the portfolio, and to keep an eye on what he is doing.

We then come to the question of the activities of such a manager. It may be assumed that the objectives are more or less the same in all institutional funds, to earn a higher return on the assets, consistent with reasonable safety, and to increase the market value of the fund. Capital gains lead to higher income, so there is no essential conflict between the two basic aims, although there may be differences in emphasis depending upon whether income or capital gains is given greater weight.

KNOWING THE MARKET

A very important part of the job of any manager of a bond account is to keep abreast of financial events in Canada and the United States, and in particular to be aware of how new developments may affect interest rates and the prices of bonds. The more one understands the market, the more one appreciates how almost all events of importance have a bearing on it, from *sputnik* to a crisis in Berlin, from a change in the British bank rate to a Canadian budget speech, from a capital expenditure forecast to a prospective change in the management of a central bank. Some of these influences are indirect but nevertheless very real; they all form an important background to the market against which the direct and day-to-day influences must be weighed.

One of the best ways for an investment manager to keep up with events is to talk to people who are likely to interpret current events sensibly and to appraise their impact on the market. For many buyers, this can be accomplished most easily by answering the telephone, because an active investment account is a natural target for bond salesmen. The bond business in Canada is conducted almost entirely over the telephone, and the buyer and seller rarely meet except for occasional social contact to establish that the voice at the end of the line is not entirely disembodied. If the opinions of all bond dealers are not of equal weight—and they most certainly are not—a cross-sectional view of opinion does make for a better understanding of new developments. Constant contact with the investment community is also essential to know what the market is doing, and why it is doing it, and the flow of information will include hour-by-hour reports on the actions of the Bank of Canada and rumours of new issues, as well as more precise information about prices, bids, and offerings. Gossip and the exchange of information, accurate or otherwise, is an integral part of the investment business, and while an intelligent manager can get by without listening in on the party line, he can usually learn a great deal from it.

ADVANTAGES OF ACTIVE TRADING

It is difficult to maintain close contact with the market, however, without participating actively in it. Information is usually given in the hope that it will produce some business. If for this reason only, the trading or "switching" carried out by an institution has some valuable by-products. But active trading in the market has other and more measurable advantages. To understand why, it is necessary to examine briefly the mechanics of bringing out a new bond issue and the impact of new issues on the market.

A normal relationship exists between bonds of different issues in the market, which depends upon a number of circumstances, including the financial strength of the issuer, the number of its bonds in circulation, the frequency of their appearance in the market, and the relative success of recent issues. There is a kind of pecking order in the marketplace, ranging downwards from Canada bonds. Of the provincials, Ontarios are usually held in highest esteem (they on occasion sell on a lower yield basis than Canadas), with Quebecs and Albertas next, and ranging down to Prince Edward Islands and Newfoundlands. The best quality municipal and corporate bonds tend to be equated with medium grade provincials.

IMPACT OF A NEW BOND ISSUE

When a new issue appears, however, it exerts a depressing effect on the market for bonds of the issuer (and to some extent on the market generally), and the normal ratio of its yields to yields of other issuers is temporarily disturbed. It therefore usually pays to buy new issues and to trade out bonds that have already been digested by the market. To be more precise, suppose that before a new issue of Ontario bonds the yields of Ontarios and Quebecs are 5.35% and 5.40% respectively, and the new Ontarios are priced on a 5.45% basis to make them attractive. A buyer may find it possible to switch old Quebecs for new Ontarios on an even yield basis. Later on, when the Quebec Government comes to the market at say 5.50% and the Ontarios have been absorbed by the market, he may be able to sell his Ontarios at 5.40% in exchange for the new Quebecs at 5.50% and improve his yield.

Moreover, on each new issue the dealers make a profit of up to a point. If an issue is slow, they may pay higher prices on the bonds they accept in trade than the market for the bonds warrants. That such transactions do take place, of course, may simply mean that the new bonds were overpriced in the first place, but they do tend to make new issues even cheaper than might be expected from the normal price relationships. This trading process is not infallible, but it works often enough to produce a steady and healthy appreciation in the value of the portfolio.

INCREASED TRADING OPPORTUNITIES

There is an additional advantage for institutions in buying new issues on a trading basis, and this is particularly relevant to funds which are static in value and not augmented by steady or periodic injections of new money. It establishes the fund as a regular and large security buyer. When issues come along that are in strong demand and sell immediately to a premium, the fund has a claim for a reasonable share at issue price based on its past purchases of other new issues.

This general policy can be extended to trading in outstanding issues. The market is often imperfect, and from time to time a demand develops for a certain issue at prices out of line with comparable bonds. This demand may be a product of a buyer's whim, or of market irrationality, but it is much more likely to be the result of an attempt by the sinking fund of the issuer to meet a mandatory purchase quota. Whatever reason prompts the buyer, an institution should be prepared to move out of the issue in demand into

A HYPOTHETICAL EXAMPLE OF POSSIBLE PROFITS FROM TRADING

Basic assumption is stable market, except for some downward pressure on provincials caused by new issues.

1. Suppose that weeks before a new Ontario issue -

   Ontario 20-year 5¼% bonds are selling at 98¾ (5.35%)

   Quebec 20-year 5¼% bonds are selling at 98¼% (5.40)

   Sell $100,000 Ontario, buy Quebecs, take out ½ point.

2. New Ontario issue announced, 20-year 5¼'s at 97½ (5.45)

   Sell $100,000 Quebecs (as above) 97½ (5.45)

   Buy $100,000 Ontarios (new issue) 97½ (5.45)

3. Ontario issue digested, new Quebec issue announced, 20-year 5¼'s at 97 (5.40)

   Sell $100,000 Ontarios (last issue) at 98¼ (5.40)

   Buy $100,000 Quebec (new issue) 97 (5.50)
   take out 1¼ points.

4. Quebec issue digested, return portfolio to original balance as in (1)

   Sell $100,000 Quebecs (last issue) 98 (5.42)

   Buy $100,000 Ontarios (last issue) 98½ (5.38)
   pay up ½ point.

   Total gain from cycle, with original position established, 1¼ points, or $1,250.

bonds of equal quality that are available at a cheaper price. It is a cliché in the business to say that you give the market what it wants and buy what it doesn't, but it has a solid basis in logic. Trading opportunities are increased by letting the dealers know the fund's objective and by providing them with current lists of holdings. This encourages them to put forward suggestions for switches, and their advice, if reasonable, should not be lightly disregarded. It is the dealer's function to match buyers with sellers and to correct imperfections in the market by arbitrage operations.

Trading activities will be influenced by a number of considerations apart from pure yield comparisons. When the income from a fund is taxable, lower coupon bonds selling at a discount are much more attractive than higher coupon bonds selling at par or above because the amortized discount is regarded as capital appreciation and is not taxable. The differential between two bonds of equal quality and term may be substantial. On October 13th, for example, Canada 5½% bonds of 1975 sold on a 5.16 basis and Canada 3¼% bonds of 1976 on a 4.96 basis. The yield spread may also be affected by the relative supply situation in the issues being compared, but the principle is still valid. One consequence of this is that non-taxable funds can profit from buying higher coupon bonds rejected by the taxable accounts.

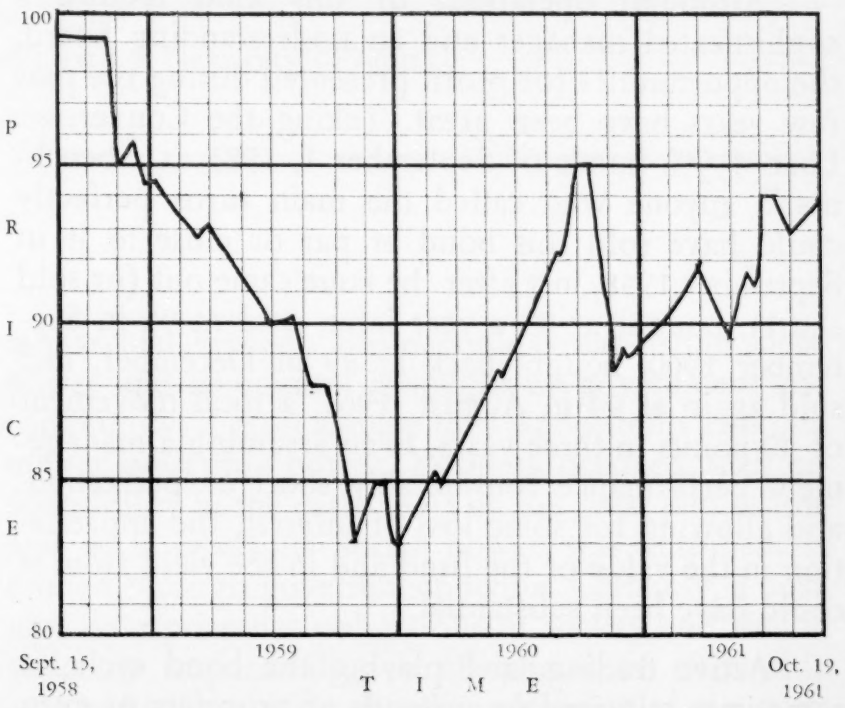
Another element affecting switching is the method used to account for realized profits and losses on sales of securities. Some institutions follow the practice (possibly because of tax considerations or of governmental regulations) of charging part or all of realized losses to current income. Other firms simply prohibit sales that would result in a loss. At lower levels of bond prices these firms are inhibited from switching and lose out on many attractive opportunities to raise the average yield on their assets. These practices make the opportunity for those not bound by such inhibitions all the greater, and this suggests that the management of any fund should give more than passing consideration to reviewing the accounting procedures it uses for security transactions. The most desirable system would permit trading without penalty at all levels of bond prices and would put the merits of switching on a pure yield basis, assuming no tax or legal questions arise.

EMPHASIZING LIQUIDITY

If an institutional fund does embark on a trading programme, it should emphasize liquidity in the new issues it purchases, even at some sacrifice in yield. Municipal serial bonds are notoriously difficult to trade, whereas corporate bonds usually have a very good secondary market because of sinking fund purchases by the issuing company. The question is how much yield should be sacrificed for liquidity. It is the writer's experience, which is supported by the experience of other active traders, that yields can be increased through trading by at least 1% per year on the asset value of the bonds traded and that the sacrifice involved in preferring liquid instruments is usually very small in relation to this.

PRICE MOVEMENTS — CANADA 4½% BONDS, 1983

September 15, 1958 — October 19, 1961



In summary, it is the contention of this writer that it pays to trade actively. It keeps the investment manager in close touch with what is going on in the market. It pays in terms of steady improvement in yield or capital appreciation, and it pays by improving the bargaining power of the buyer on scarce issues. And if one is prepared to allow non-financial considerations to intrude, it keeps the buyer active and on his toes and gives him greater sense of participation in the market.

ANTICIPATING THE BOND CYCLE

Active trading provides one source of possible improvement in a fund's position. Another opportunity open to an alert investment manager is to try to anticipate the bond cycle. One of the main characteristics of interest rates these past few years has been that rates have fluctuated frequently and sometimes violently. This fluctuation provides scope for placing new money into shorter term securities when long term rates are relatively low by normal standards, and bond prices high and, to a limited extent, for switching part of the long term portfolio at these times into shorter and more liquid bonds. When interest rates rise again, the short term securities can be liquidated and the proceeds put into the long market at

the lower prices then prevailing. Needless to say there are some risks in this type of manoeuvre. The change in prices may not be enough to compensate for the loss in interest from holding the lower yielding short issues. The manager's judgment may be faulty, and he may miss the best time to move at either end of the cycle. It is difficult to buy or sell any volume of bonds when the market has turned definitely in one way or the other because everyone else is trying to do the same thing at the same time.

Although operations of this kind require a sophisticated manager and an understanding board, the opportunities for profit presented during the past few years have been great. Taking the Conversion Loan 4½% bonds of September 1, 1983 as a benchmark, anyone who called the main turns perfectly could have sold this bond at par or close to it in September 1958, just after the issue came out (or sold short), bought at 83 a year later, sold at 95 in September 1960, bought back at 89 in December, and sold again at 94 in August, 1961, a total movement of 40 points in three years. Even assuming a management performance considerably short of perfection, and allowing for some loss of interest, the appreciation in the value of the fund and in the yield from it could have been substantial.

Active trading, and playing the bond cycle, is sometimes criticized on grounds of propriety or even morality. This stand is often associated with the traditional view that a bond is something to be bought and put away. It is also argued that too much trading makes new issues more difficult to sell, "they have to be sold twice," and produces much wider swings in bond prices as buyers as well as dealers try to anticipate the turns. There is undoubtedly some truth in these allegations, because the more that long term bonds are held on a short term basis, the more sensitive the market will be to developments which bear on bond prices. Nevertheless, the fact that trading is so profitable at present reflects market imperfections and lack of mobility and maturity. By broadening and deepening the market for bonds in Canada, active trading can in fact create better conditions for marketing new issues, as well as provide more opportunities for the disposal of outstanding bonds.

CHECKS AND BALANCES

In any event a mature and sensitive market produces its own checks and balances. The more market imperfections are reduced by trading, the fewer opportunities there will be for large profits—and the less attractive trading will become. If more people try to anticipate basic changes in interest rates, not only will the sale or purchase of large amounts of long term bonds become more difficult at the extremes of the cycle, but the effect of the selling or buying that takes place will be to reduce the height of the rise or the depth of the fall. We are, in fact, more likely to have a stable market in long term bonds as the market matures in depth and sensitivity.

IGNORANCE OF OUR SYSTEM

Why is there the threat of the overthrow of our system? In particular, why is there the danger of its deterioration from within, abetted even by some intellectuals and thought leaders? Could it be that those who believe in the system—while recognizing that anything human is imperfect—have taken too much for granted, and have failed to explain it to the unconverted? The disciples of Communism claim that it will provide the masses with higher living standards and more economic freedom. Their statements show ignorance of the actual effects of our system, ignorance of the real effects of other systems with which ours is compared, or deliberate attempts to misrepresent. We cannot stop misrepresentation by reasoned argument, but we can correct the first two and we can try to offset the effects of the last by disseminating concise and clear information on our system and the demonstrable reasons why it deserves to survive.

—Herbert H. Lank, DuPont of Canada

Policies for Corporate Giving

Large corporations are, say the authors, more and more acknowledging that to do a good job regarding philanthrophy they must invest great amounts of time, effort, and intelligence. A planned rational policy of corporate giving is necessary, they assert, both for the sake of the company and for the sake of the charity.

GORDON R. FINCH AND J. GREGORY O'NEILL

Business executives in Canada and the United States are giving considerable attention to the question of the charitable contributions that their firms should make. How much and to whom are the basic questions of concern, but increasingly new forms of making the donation are being discovered; so there naturally arise questions about how to make the donation.

In order to throw some light on these questions for those who have not yet answered them to their own satisfaction, this article will first examine the solutions some firms have arrived at and then suggest a tentative framework that others might use.

WHY DONATE AT ALL?

Two sets of arguments support the contribution policy of the business enterprise. One is a more selfish, starkly economic viewpoint, which says that the company is made to appear as a "good" corporate citizen to employees, suppliers, and, most important, customers, provided sufficient publicity is attendant to the donations; donations provide a "positive" example of capitalism and thus work against the encroachment of socialistic tendencies usually expressed today in free enterprise societies through higher corporate taxation; stockholders, many of whom are philantrophically equipped and inclined, may react if no donations are made; and the rejection of requests for donations may result in bad public relations.

The second and more humanistic approach rests on another basis entirely: history shows that authority and responsibility go hand-in-hand. In the past, any group or society that has had authority but declined responsibility has been eliminated (as for instance in the cases of the Roman Empire and the aristocrats of monarchial France). Business today has strong social power and its counsel is sought by government and community; it must assume the responsibility concommitant with this power. Business declined such responsibility in the early years of the great depression, and as a result its social power was considerably eroded through government action. Certainly, a business enterprise has obligations to society and should welcome responsibility in all phases of citizenship and participate with all other elements of the community in civic affairs, welfare programs, improvement of educational facilities, and, other measures to insure health and safety. The corporate form of organization can exist only in a suitable social setting, and such a setting deals with the "whole man," not just economic man.

Naturally, there are opposing views on the question. Those who would avoid a practice of making donations argue that there are dangers when social responsibility is assumed by any body other than the state and contend that the business firm that competes aggressively, earns optimum profits, stays responsive to the market, and pays fair wages and increased taxes is performing its entire social responsibility. Those who hold these views are vocal, but not many in number.

For the firm that has agreed to donate, and thus tax its customers for the support of worthwhile causes, a positive, planned policy is needed. A policy of dispersing charity and educational support on the basis of pressures and executive whim constitutes no policy at all. In fairness to customers, shareowners, and employees, as well as to recipients of corporate support, there should be a rational policy that makes such support a sound investment in broadly conceived terms.

During the past fifteen years, noticeable changes have emerged in the outlook of companies towards giving. Instead of spontaneous donations under immediate or local pressures, gifts are now made on the basis of a planned program. Instead of one or two senior executives deciding to whom and how much, large corporations have now established organization components or company foundations precisely to deal with philanthropy. Indeed, large corporations, in general, are more and more acknowledging that to do a good job regarding philanthropy they must invest great amounts of time, effort, and intelligence in the development of philanthrophic programs and philosophies.

If one particular segment of corporate giving is analyzed—education— it will be clear just how much consideration is being given to the matter of philanthropy. In 1953, General Electric undertook a major analysis of its aid to education. Thereby it found need for more uniform direction and clearer purpose—in short, a formalized plan for making grants that would be in what it considered "the Company's best interest." With this analysis in hand, the Company established a company foundation through whose administration grants are made that annually total two million dollars.

Similarly, Shell Oil Company, with sincere concern over support of higher education, established a company foundation through whose administration large annual donations are made. Further analysis of corporate giving reveals that large businesses are more and more supporting other areas of "social responsibility." In particular, companies with philosophies that approve of corporate giving contribute large sums to the support of charities, the United Appeal being a major recipient.

Big businesses today are going beyond the conventional fields in their philanthropy. A striking example of departure is the O'Keefe Centre in Toronto. This structure, built through the suggestion of E. P. Taylor, chairman of Canadian Breweries Limited, was erected for the "operation of the cultural centre for the benefit of the community." Canadian Breweries will purposely make no profit on the endeavour. The Centre is concerned with the whole gamut of cultural entertainment and it operates on the principle of "gains on some to be offset by losses on others." The objective of the endeavour remains solely, "to make a contribution to the development of the performing arts." Likewise, in New York City, the Lincoln Center for the Performing Arts has been erected through the endeavours of John D. Rockefeller III and Clarence Francis (former chairman of the Board of Directors General Foods) at a cost of seventy-five million dollars. Definitely, in analyzing corporate giving one sees a striking revolution in the creation of these "arenas for art," a practice corporations hitherto have virtually shunned.

As stated earlier, in addition to changes in the size and nature of corporate gifts, there have emerged also significant changes in who handles the matter and how much time is spent thereon. Many companies now appoint a special officer with top executive respect and judgment; others have special committees; many have established company foundations. In short what has emerged is this: where demands on executive time and company coffers are small, one executive or a small committee will handle the matter. Conversely, where a large company has an approving philosophy towards giving, a foundation is usually established. Specifically, foundations have been established to permit a company to maintain its contributions despite ups and downs in its earnings, to improve administration of company giving, and to discover and apply the best means of using available resources equitably in all program areas.

THE BIBLE ON CHARITY

4. Charity suffereth long, and is kind; charity envieth not; charity vaunteth not itself, is not puffed up. 5. Doth not behave itself unseemly, seeketh not her own, is not easily provoked, thinketh no evil; 6. Rejoiceth not in iniquity, but rejoiceth in the truth; 7. Beareth all things, believeth all things, hopeth all things, endureth all things. 8. Charity never faileth: but whether there be prophecies, they shall fail; whether there be tongues, they shall cease; whether there be knowledge, it shall vanish away. 9. For we know in part, and we prophesy in part. 10. But when that which is perfect is come, then that which is in part shall be done away. 11. When I was a child, I spake as a child, I understood as a child, I thought as a child: but when I became a man, I put away childish things. 12. For now we see through a glass, darkly; but then face to face: now I know in part; but then shall I know even as also I am known. 13. And now abideth hope, charity, these three; but the greatest of these is charity.

Corinthians 13:4-13

SMALL COMPANY GIVING

A review of small companies that operate either on a local or regional scale shows the existence of very diverse procedures regarding donations. Very definitely the "1% before taxes," which is a common budget amount in many large concerns with an approving philosophy, is not common amongst smaller businesses. Futhermore, it can be argued that small business giving is primarily because of fear—fear of customers', employees', suppliers', and shareholders' reactions if certain contributions were not forthcoming.

Small companies, operating in one or two areas, frequently complain of the plague of requests for contributions. Most small businesses develop a "yardstick" that indicates quite specifically which requests will be favoured. There are, however, few general formulae for small companies to follow, and, because of each small concern's peculiar traits and lack of substantial resources, no simple pattern can be developed satisfactory to all.

Various "yardsticks" are in use. Many base their gifts on such factors as the preceeding year's profits, tradition, habit, or percentage of the payroll. One firm's arrangement exhibits the uniqueness of the small company's plan, and it also shows how attention to competitor's contributions influences donation decisions. This company states quite unashamedly that its gifts are based on what other companies in the area give. In establishing its plan, another Cleveland based company chose nineteen *similarly-sized* local companies, calculated the total Cleveland net profit of the nineteen companies plus itself, calculated its share of the total, and concluded that any worthy donation request would receive four percent of what the twenty firms in its group contributed to the cause the preceeding year.

AN EVALUATION

With this review of attitudes and practices behind us, we can now turn to an evaluation of the underlying philosoplies. The first attitude views businessmen as a group that can and must keep the wheels of society revolving. This approach is premised on the belief that if the capitalistic countries are to progress at least as fast as their eastern adversaries, aggressive action by all segments of the nation is needed. Yet, how enveloping are business donations? Particularly, examine such gifts as the O'Keefe Centre: What good does such a gift do the whole society? Does it not appeal only to a select few and not the masses? Further, despite all the aggressive striving and continually greater assistances from business, are there not many, many capable people unable to obtain a college education and many such people without jobs? We must ask, then, given a sincere acknowlegement of social responsibility, can business philanthropy fulfill the inadequacies in the circuit of our society? Undoubtedly we must admit capitalism, like communism and socialism, has its weaknesses. Business contributions, no matter how extensive, how planned, or how executed, cannot overcome all the weaknesses of our society. Are the supporters of this reasoning then not being somewhat too pretentious?

Next, let us examine the other segment of the business men with an "approving philosophy"—the group who give because they fear the consequences of not giving. To begin with, how mature and sound is this thinking? Can one businessman retain a customer's business though he has the highest price and poorest quality by supporting that customer's favorite charity? Similarly, a business man's relationships with suppliers, employees, stockholders, and competitors can be examined. Undoubtedly in certain specific instances a businessman can derive advantages through supporting a specific request: yet, in the long run it is the businessman's business ability that provides success. Businessmen who give to evade pressures often contribute irrationally. Furthermore, such philanthropy can lead to nothing but a vicious circle.

Thereby two conclusions seem apparent regarding businessmen who support extensive giving. They either advocate giving because they believe businessmen have social responsibilities, or they feel business must give to evade the criticism of any number of pressure groups.

On the other hand, there are businessmen who look primarily at business donations as an expense like any other expense: that is, if the expense is justified and will achieve value, it is worthwhile, otherwise it is not. They see philanthropy as having no place in business and consider that keeping up with the corporate Joneses is both costly and wasteful. This group demands that all business donations be sound investments over both the short and long term: to them corporate giving makes good sense only if it makes good economic sense. Such an attitude towards business donations has considerable merit, though some base level, below which business philanthropy should not fall, seems necessary.

Finally, there is the group in opposition to business donations. This group maintains that business is business and social responsibility is out of bounds. Definitely, as has been outlined earlier, strong arguments can be made in favour of business giving, which many in our capitalistic society feel should be a part of the social responsibility of business. Many of those opposing corporate giving feel that business responsibility ends with making a profit and performing efficiently, thereby providing jobs, wages, dividends, and taxes. To this group welfare financing

is the job of the community, assisted by a proper dispersal of tax receipts. Those who disapprove of corporate donations believe that in a free enterprise society welfare is automatic. But is this so? Where would many unemployed persons who have overdrawn their unemployment insurance benefits be if charity could not assist them? The concept of a pluralistic society, where business, government, labour, and agriculture act independently has merit, but too often the capitalistic world has realized that strict segregation of the groups does not achieve the greatest benefit for the greatest number.

Furthermore, if all businessmen disapproved of business donations, how could capitalists strive to maintain and increase the strength of their convictions in this world of diverse social order. If huge sums were not forthcoming, particularly for education, we would undoubtedly be left far behind the Communist nations. Businessmen's money and talent undoubtedly do a great deal to help the free-enterprise nations maintain their influence and significance. To adopt the disapproving philosophy is undoubtedly to adopt stagnation, obsolescence, and erosion.

A FRAMEWORK FOR BUSINESS DONATIONS

Plans for business donations that are purposeless and generated from a fear of social censure or a desire to "follow the leader" should be rejected. Such practices lead to wasteful and frivolous spending and, moreover, cause dissatisfaction in the long run, for the recipients rarely know where they stand from campaign to campaign, from good profit year to poor profit year. A planned, rational policy of corporate giving should emanate from the foundation of equating business' social power with its social responsibility. This need not lead to a monolithic society as is suggested by some opponents of business donations, for business is but one member of society. The principle of democracy is observed when all groups share equally in their obligations to society.

The crux of the matter is determining a "fair share" for specific types of welfare. We suggest that the community has a responsibility to provide basic amounts to protect certain segments of society, specifically, the aged, the infirm, and the unfortunate and to provide basic assistance to higher education. It should be noted the word "basic" was employed. Just what constitutes "basic" is a moot point, and it can be argued that government is providing more than the basic amount in, say hospitalization in Ontario, but less than a basic amount in grants to higher education—and vice versa.

The role to be played by business is, we suggest, in providing grants, for specific purposes according to its own needs and interests, that will provide a sound investment, both short and long run, for its stockholders. We agree that pure philanthropy has no part in business. The reasons for donations should be purely economic, but such economic reasoning should be broadly and imaginatively conceived and consistently and efficiently translated into action. Thus, support for higher education—at specific universities that contribute the type of man power needed—can be logically justified by the reasoning that educated people make better employees, education provides higher incomes and a higher standard of living, and thus company sales are increased. Consistency and efficiency should be a part of the decision how best to provide how many dollars for whom. Doubtless, a percentage of profit must be a guide, but businesses should establish a type of "sinking fund" (alternatively a foundation) to ensure consistent giving throughout fat and lean years. This requires thought and planning. Finally, there is much to be said for establishing patterns and eliminating duplicate canvassing through the medium of business and industrial associations and chambers of commerce. This type of "combine" would be highly acceptable.

In conclusion, we maintain that business has a responsibility to society and we support the concept of business donations that are rationally conceived, carefully disbursed, consistent with the economic goals of the business, for specific purposes, and distinct from the basic welfare contributions allocated by the state.

WHAT PRICE ECONOMIC GROWTH?

The authors of "What Price Economic Growth" suggest that a new system of taxes and rebates should be applied to business firms, based upon a target rate of growth. If the target rate of growth in output (or in value added) were set at 5 per cent, then all firms that exactly attain that target should have these new taxes exactly offset by rebates. Firms that grow by more than 5 per cent in a year would receive a rebate larger than the additional tax, and firms whose rate of growth fell below 5 per cent would receive a rebate smaller than the additional tax. The authors suggest that very small firms should be allowed the alternative of opting out into more normal systems of taxation, although "once having entered into the scheme they would not be permitted to withdraw, at least until their payments into it had matched the rebates received." But among bigger businesses "requests for exemption of firms in declining industries or in situations in which market forces make it very difficult to achieve growth . . . must be firmly rejected."

—*The Economist*

The Personnel Function: A Practitioner's Approach

The necessity of grappling with the day to day collective bargaining problems has inhibited the growth of a sound body of personnel prnciples in other fields, says the author. The various facets of the personnel function vary widely, producing anomalies that engender misunderstanding and perplexity both among personnel people and outsiders.

H. J. Clawson

Personnel Administration and Industrial Relations have been analysed and dissected and appraised and projected more than any other management function in recent years. Yet the terms "Employee Relations"—"Industrial Relations"—"Human Relations"—Personnel Management"—all vie with one another for preeminence and are often used interchangeably.

Indeed, the "man on the street' 'is often unaware of the difference between "public relations" and "industrial relations." The Personnel Manager appears to many as merely an employment agent; others visualize him as the manager of a glorified counselling service, or as an organizer and master of ceremonies at picnics, or as a tough union negotiator. This confusion in terminology may seem to be a superficial problem. But a semantic confusion is often both the cause and the result of deeper difficulties of substance.

DIVERSE RESPONSIBILITIES

If people are justified in being confounded by the profusion of the somewhat obscure job titles, there are grounds for even greater bewilderment about the diverse responsibilities that are often lumped under the personnel function. Certainly there does not appear to be any similarity or even a relationship between, say, the management development function and the collective bargaining function. The very qualities that lead to success in the one area may cause failure in the other. Even the objectives, certainly the immediate ones, appear to be totally different.

The person who is charged with administering the personnel policies of salaried, non-unionized employees has very little in common with the man who is responsible for administering a union agreement. It is sometimes disconcerting to see seminars and courses on "Wage *and* Salary Administration." Anyone with even a meagre experience in wage administration, under conditions of collective bargaining, knows that the rules and the procedures are quite remote from those of salary administration for non-bargaining unit employees. Thus both the objectives and the techniques of the various facets of the personnel function vary widely, producing anomalies that engender misunderstanding and perplexity both among personnel people and among outsiders.

IMPACT OF COLLECTIVE BARGAINING

A major factor that has militated against the growth of a mature philosophy of personnel administration has been the preoccupation with collective bargaining.

> ". . . it is now almost 25 years since 'industrial relations' began to be recognized as an identifiable management function. During nearly 20 of those years the preoccupation has been mainly with collective bargaining—the group relations aspect of that function. While the industrial relations practitioner, or the personnel man, as he was commonly called, did, in the beginning, make some faltering attempts to build a logical and rational system of personnel management, the

modest progress in this field was soon interrupted, before he even got 'off the ground' so to speak, by the march of events—mainly the rise and growth of unionization in industry. With some notable exceptions, *the development of a disciplined approach to the administration of the human resources of industry* was sidetracked by the necessity of coping with the problems of employee relations on a group basis—through unions and the collective bargaining process."[1]

Many serious mistakes have been made in collective bargaining by well-meaning personnel men who have failed to perceive the difference between unilateral, *individual*, personnel administration, and contractual, *group*, personnel administration. Many more mistakes will be made unless the principles of both types of personnel administration are thoroughly understood. This is not to say that there is no room for the application of sound and equitable principles of personnel management to the management of bargaining unit employees. There must be a different emphasis, however. In any event, the necessity of grappling with the day to day collective bargaining problems has inhibited the growth of a sound body of personnel principles in other fields.

AN APPARENT CONFLICT

As a result of the divergent objectives and techniques of labour relations and personnel administration, labour relations people often have only a superficial conception of what personnel people are thinking and doing, and vice versa. They live in almost different worlds and certainly speak different languages. There is, for instance, the apparent conflict between the so-called "hard" approach and the "soft" approach in employee relations. The collective bargaining expert thinks that the personnel administrator is one of those "happiness boys" — a human relations fanatic who would "give the farm away" if that were necessary to keep employees contented. The human relations devotees on the other hand think that the labour relations specialists are a cross between a Chicago gangster and Scrooge. Most of this misunderstanding has no real basis whatsoever. It is, indeed, regrettable that the phrase "human relations" has taken on the connotation of *softness* or that it is regarded as an approach to the handling of human resources that is colored by mere sentimentality. Perhaps this attitude is a legacy of those days when it was generally believed that the chief qualification for entry into the personnel field was "a liking for people." However, this misconception of the underlying tenents of "human relations" goes deeper. The concept has been debased, not so much because of the deficiencies of its practitioners, but because the idea itself had not sufficiently matured before an ill-considered label was attached to it.

We are now beginning to see collective bargaining as one aspect of personnel administration. The fact that those who are concerned with collective bargaining appear to be more "hard boiled," and perhaps a little more cynical, more legalistic, and less flexible, than those who have responsibility for other aspects of personnel administration does not indicate any fundamental difference of philosophy. The very nature of collective bargaining, involving as it does relations with employees as a group, rather than as individuals, precludes an approach governed by the ordinary canons of *human relations* behaviour. When one considers that the group is not merely the sum of the individuals composing it, but, in fact, is a distinctive entity altogether—the union as an institution with all the normal institutional attributes—the difficulties involved become more clearly seen. This is further complicated by the fact that unions have become political institutions and pressure groups rather than just idealistic social movements.

In addition, and this is obvious but basic, under conditions of collective bargaining, the greater part of personnel administration is subject to contractual obligations with all their accompanying rigidities and sanctions. Not only the original negotiation of the contractual rules, but the administration of such rules, must be governed by this reality. One need only mention the fact that action under a collective agreement is subject to final adjudication by an arbitrator to see how different the approach must be.

HUNCHES AND GUESSES

Before leaving this bill of particulars on what is wrong with the personnel function as it is now being practiced, there is another vital problem to be considered. One of the difficulties of a staff function such as that of personnel is that everyone, whether in the line or in another staff department, thinks he is an expert on "people." This is not the case to the same extent, for instance, with a staff function such as accounting, or even engineering. Unquestionably, this attitude toward the personnel function has created certain difficulties. On the one hand, it has caused us to be "on our toes" and to improve our performance in the technical aspects of our jobs; the greatest advances in performance have been in labour relations, where the prestige of the personnel man as a quasi-professional has risen the highest. On the other hand, it has resulted in a babble of conflicting opinions and often unsound advice. Finally, it has

[1]See H. J. Clawson "The New Challenge of Industrial Relations," *The Business Quarterly* XXIV, No. 3, Fall 1959. P. 163.

also interfered with the growth of the scientific method in personnel research.

The lack of carefully thought out principles based on facts is a threat not merely to the personnel function, as such, but to the whole field of management. One writer has said (and he was a practitioner, too): "Personnel methods have relied too long on hunches, guesses and past experience."

DEVELOPING A LOGICAL SYSTEM

How can a management function which embraces diverse and apparently unrelated responsibilities, be developed into a logical and conceptual system? What should be the objectives of the personnel function, and, more important still, how can we distinguish between what are objectives and what merely procedures?

Overriding everything else is the necessity for recognizing that the personnel function is an integral part of the management function. The personnel function, in the same way as production, finance, and other aspects of management, "has," according to Dr. Wright Bakke of Yale, "been carved out of the general managerial function; not put into it." And further, Dr. Bakke states, "human relations, industrial relations, personnel relations are just new names for an aspect of the general managerial function as old as management itself." [2]

The general job of management is to use resources effectively for an organizational objective. Basically, there are six resources with which management must concern itself: money, materials, people, markets and nature. That function related to the understanding, the maintenance, the development, the effective employment, and the integration of the potential in the resource *people* is, in the words of Dr. Bakke, "the human resources function." The term "human resources function" connotes the full scope of the *people* aspect of management much better than any other. It provides a logical framework within which we can develop the various aspects of that function on a more meaningful basis.

Before dealing with some of these specifics, let me again quote from Dr. Bakke's article: "The chief and central concern of the human resources function is not personal happiness, but productive work and the cooperative relations of people at work." This summation not only admirably describes the objectives of personnel administration, but throws some light on the misconceptions of those who think that "human relations" involves merely a "bleeding heart" approach. "Human Relations" means, of course, a study of the relationships of human beings to their environment.

AREAS FOR IMPROVEMENT

The specific areas of the human resources function in which we must improve our objectives and our performance are as follows. This listing is by no means in order of importance, nor is it exhaustive, rather the areas named are merely highlights.

PERSONNEL ADMINISTRATION

It is no exaggeration to say that there has been less progress in this area in the past 25 years than in any other aspect of the human resources function. I am referring now, not merely to the common aspects of the job, such as, recruitment, selection, placement, salary administration, record keeping, induction, training, transfer, promotion, lay-off, termination, employee welfare, and so on (in all of which there has been some progress), but to the less obvious but more complex responsibilities—the organization, the understanding, and, chiefly, the *motivation* of people. Those pioneers in personnel who laboured so ably in the first third of this century, such as, Mary Parker Follett, Elton Mayo, Ordway Tead, and Thomas G. Spates, to mention a few, were for a number of years almost forgotten; their influence was interrupted mainly because of our absorption in collective bargaining problems. Now there are signs that some of their thinking is being resurrected. Even more important, just within the past few years, new and significant experiments and developments have begun to occur in the behavioral sciences that will have a profound effect upon the future practice of personnel functions. Such developments are long overdue; Robert Owen said in 1825: "If, then, due care as to the state of your inanimate machines can produce such beneficial results, what may not be expected if you devote equal attention to your vital machines, which are far more wonderfully constructed."

Thomas G. Spates, in his recent book *Human Values Where People Work*[3] has given us a definition of personnel administration: "The code of personnel administration is composed of the philosophy, the motives, and the methods of organizing and treating people at all levels where they work, so that they will achieve and give the best that is in them, while getting the highest possible degree of individual satisfaction." If this definition accurately describes the purpose of personnel administration, then there

[2]Wright Bakke, "The Human Resources Function," Yale Labour and Management Centre, Yale University, New Haven, Connecticut, 1958.

[3]Thomas G. Spates, *Human Values Where People Work*, Harper & Brothers, New York, 1960.

is obviously a great deal of urgent and scientific work to be done. The younger people in personnel would do well to ponder whether or not the greatest rewards in the future lie in this direction, rather than in the direction of labour relations activities.

MANAGEMENT DEVELOPMENT

Management Development is, of course, part of the broader field of personnel administration. Many companies, including my own, have organized this function separately from general personnel administration (i.e. within the Personnel Division, but separate from the Personnel Administration Department). One of the reasons the personnel function has failed to develop in accordance with earlier expectations is that the practitioners have been too busy with the routine personnel procedures involving rank and file employees. Thus the management group (and especially the more senior segment) has been neglected. And yet, if business is to achieve its objectives of organizing human effort with maximum effectiveness, the leadership performance of line managers must be developed and improved. One of the most challenging tasks in the future will be the advancement of proficiency in the selection, placement, evaluation, and development of people in, and for, the managerial group, including not only those who supervise other people, but also technicians and other specialists — generally what has come to be called high talent manpower.

It is doubtful that Vocational Training properly belongs in a management development department. Nevertheless, industry will in the next quarter century have to increase and improve its vocational training efforts. If it does not, the government will take over this function, and perhaps at greater cost and along lines that may not be too useful. We have a great deal to learn from United Kingdom and European industry on this score.

ORGANIZATION

None of the principles of effective utilization of human effort can be implemented without a proper organization structure. Personnel people have been inclined to let responsibility for organization planning go by default. Our unique vantage point for observing the deficiencies of communications that result from poor organization surely qualifies us as potential experts in this field. We should, therefore, equip ourselves to speak with insight and authority.

LABOUR RELATIONS

We have made substantial strides toward achieving technical proficiency in the field of collective bargaining. Much still needs to be done and new problems will arise, but, on the whole, the field of labour relations is becoming more legalistic, more routine, and more predictable and the problems are no longer as baffling as they were 10 years ago.

However, there is still room for a great deal more imagination and skill in our personnel attitudes and procedures with respect to a bargaining unit in the areas not covered by the collective agreement. Any action here must be taken with full knowledge of the realities of collective bargaining. On the other hand, it certainly must not involve attempts to undermine the union. Within these limitations, there is much to be done in the area of communications and the development of a greater concern for the dignity of the individual. Stimulation of maximum productive effort and self-fulfilment is just as important here as in other groups.

CONCLUSION

The human resources function is an indispensable element of the practice of management, which Peter Drucker has called: "the most important function in American Society." The survival of our economic, social, and political system in the Western World may depend on how well we and all other in management discharge these responsibilities.

Personnel people must not expect any special privileges; they must face the same tests of organizational usefulness and effectiveness as any other function. One sometimes hears personnel men say that they feel frustrated because their function has not been wholly accepted or recognized by their company. This lack of recognition may be due not to the cupidity of line managers, but rather to the quality of the staff man's performance. The best way to get acceptance from the line is to serve the line well. If this is not done, any external trappings of authority will be meaningless and short-lived. The true nature of the personnel role is to assist line managers to be more effective in their relations with people.

Nothing can replace native intelligence, the capacity for objective judgments, and experience in the development of human resources skills. But with the increasing complexity in human affairs, there is also a growing body of research works and special studies in this field. The problems of effective manpower utilization, or what has been called "administrative intelligence," are too complex to be governed merely by hunches, guesses, and experience. A more mature approach demands a solid background of principles and theory.

The personnel man must never lose sight of the vital link between integrity and managerial compe-

tence. Dean Stanley F. Teele of the Harvard Business School has summed up this thought in the following statement: "A man's personal philosophy, his way of looking at the world and the men and women around him, determines his success as a manager of things and people more than any other single factor. His basic attitudes are far more significant than the techniques he uses . . . as we look ahead, we have reason to believe that this will be increasingly true. In short, the time may come when an evil man or one who has no clear sense of values simply cannot be an effective administrator."

While the individual concerned about human resources does not necessarily need a missionary zeal in the discharge of his functions, he must accelerate his intellectual growth and enhance his technical competence, and improved qualities of mind would be barren without improved qualities of character. Fortunately, the evidence as revealed by the calibre of most practitioners, and by their individual and collective efforts to educate themselves, provides assurance that the accomplishments of the last 25 years in personnel administration will be greatly surpassed in the next 25 years.

CONSUMER AT A DISCOUNT

Somebody once described the American consumer, that "clean, quiet, virtuous, domestic citizen who pays his debts and his taxes and is never heard of outside his little circle," as the nation's forgotten man. Over the past year or so, however, among bureaucrats, sociologists and other assorted eggheads, he has come to be an object of intense and unwonted concern. Last fall one author who sells better than he writes created quite a stir by exposing the "waste makers," those evil-doers in commerce and industry who, by means of planned obsolescence, hidden persuaders and other sordid tricks, were bilking the customers. Soon afterward, during a political campaign in which the quick retort and snappy phrase ran far ahead of the simple truth, the voters heard many a fervent denunciation of "private affluence and public squalor." The consumer, so the U.S. was led to believe, was a hapless victim, a heedless spendthrift, or both.

Lately his behavior again has been wrinkling brows in high places. What troubles the authorities today, however, in striking contrast to last year, is not the propensity of people to spend their money, foolishly or otherwise, but their apparent reluctance to part with it at all. Because consumers "have been hanging on to more of their dollars," said Secretary of Commerce Luther Hodges dolefully the other day, retail trade has ben lagging and the whole business recovery stands in jeopardy. "We cannot have mass production or mass employment," he went on, "unless we first have mass stimulation of our latent wants."

The sudden solicitude for the well-being of the once-despised private sector comes as a welcome, if ironic, change. Like its precursor, however, the new attitude in Washington reveals a deepseated lack of understanding of the ways of the family unit and the facts of the case. On the latter count, there is reason to suspect that retail sales have been running higher than the official figures, the defects of which are many, might indicate. Hence the lag which now looms as so alarming may be more illusory than real. No less unreal is the widespread myth that consumers are a witless lot who can be readily manipulated, or "stimulated," into doing whatever the sponsor or the Government happens to urge. The truth is that despite all lapses of judgment and taste, the American public is remarkably adept not only at discerning its genuine needs but also at filling them efficiently and cheaply. What Madison Avenue found out long ago, the consumer's critics sooner or later are bound to learn.

—*Barrons*, October 1961

Ottawa Newsletter—continued

average of 50 percent of capacity and yield a higher total revenue.

T.C.A. has pioneered some package deals resulting in lower fares. For example, an airliner which carries passengers for 3¾ cents a mile across Canada is forced by international agreement to charge up to 13 cents a mile across the Atlantic. But special winter excursions slash the round-trip between Montreal and England to $329, contrasted to a regular first-class fare of $875: this is T.C.A.'s answer to the piracy of the less reliable but cut-rate charter flight.

The experience of T.C.A. poses the question: should a Crown Corporation be subjected to political pressures urging individual profit before public service? As a creature of the Federal Government, T.C.A. is alas the target of many lobbyists. Canadian aircraft manufacturers urge that it should buy their aircraft rather than foreign products, regardless of price, utility, or merit. Privately-owned airlines urge that T.C.A. should make way for them on profitable routes, regardless of the standard of service offered to the public. Certain food processors have driven T.C.A. out of the business of transporting fresh food because this diminished the public appeal of their processing. A private airline of course could not be subjected to such pressures; our publicly-owned T.C.A. should not be subjected to such pressures because this indirectly burdens the taxpayer and lowers the quality of the service.

Washington Newsletter—continued

drawn some innocent fun from anti-wine posters showing a smiling camel, happy as he can be because he does not drink alcohol. That, say the vintners, is just what you would expect of *un chameau*—and *chameau* is still a fighting word in France.

French satisfaction with the progress of ECM was crowned by Britain's unconditional acceptance of the Treaty of Rome in her application to join the European Common Market. Edward Heath, the Lord Privy Seal, made it crystal clear even to the dubious French that Britain wanted to enter the Common Market to strengthen it, not to destroy it from within. Mr. Heath bought the Coal and Steel Community, Euratom, and even the Bonn resolutions looking to closer political unity. He even bought the tariff structure and announced that British agriculture could no doubt adjust itself as well as any other set of farmers within the time-limit set for the rest of them. As for the Free Trade Area, some members had already sought entry, the neutrals would soon have to consider how much longer they could continue to segregate the economic from the political, and in any case the aim of EFTA itself was creation of a real European market. EFTA would have fulfilled its role when its members entered or associated themselves with the Common Market.

That left the Commonwealth, and it got short shift. Associate membership might be appropriate for some—meaning the under-developed members—Mr. Heath said. The rest—Canada and Australia notably—would have to accept readjustment of their trade with the United Kingdom and compensation by a general increase of trade with the Common Market as a whole. The United Kingdom would confine itself to pressing for the latter.

There are already hints that as soon as Britain's entry is accomplished, the ECM would welcome negotiations for tariff reductions on certain items of interest to Canada and the United States—aluminum, for instance, on which the general rate might be brought down from 9% to say 5%.

One thing is sure, negotiation of Britain's entry into the ECM has been carefully prepared; discussion of details goes on at Brussels; it may move much faster than the public have been given any reason to expect; some informed officials expect it to be tied up by Christmas. Any meeting of Dominion Prime Ministers called to deliberate on the results will be for social and face-saving purposes only; when this negotiation is tied up, no Alexander will be invited around to cut the Gordian knot.

The distant prospect, only faintly discerned at present, is for a much closer economic and political union of the entire Atlantic community.

A first step may have been taken in the formation of the OECD, although this is concerned primarily with coordinating the efforts of the Atlantic Community to aid underdeveloped areas. The OECD will carry on the work of the Development Assistance Group, which had begun to survey the problem. Donald Fleming, the Canadian Minister of Finance, was selected as chairman of its Council of Ministers to emphasize the importance of foreign aid, and at the same time to avoid giving the impression that it was being run by the United States. The U.S. was given the post of Deputy-Secretary-General.

Such is the prospect at the time of writing. What acts of God or man may change it between now and publication, who can forecast? But, cataclysmic incidents aside, the prospect is not by any means gloomy. Most of Western Europe has never had it so good. The little guy never has has as much to look forward to since the United States shut the imigration gates. And with the return of Britain to the European Community, there will have been re-established a unity that had not existed since the break-up of the western Roman Empire.

SPECIALIZED FINANCIAL SERVICES

for Canadians
and Canadian business

The advance of the Canadian economy has been spectacular. Matching it stride for stride during the past 36 years, Industrial Acceptance Corporation has moved ahead, opening new offices, instituting and developing new services for a wide variety of businesses and occupations of customers served.

Today, I.A.C. is the largest sales financing company in Canada, and the fifth largest in the world. A list of the services offered by the Company and its operating subsidiaries follows:

INDUSTRIAL ACCEPTANCE CORPORATION LIMITED

- Sales Financing
- Capital Equipment Financing
- Leasing Service
- Capital Funds
- Portfolio Purchase
- Purchase Credit Plans
- Wholesale Financing

MERIT INSURANCE COMPANY LIMITED

- Automobile Insurance
- Industrial Insurance
- Leasing Insurance
- Cargo Insurance
- Residential Fire & Theft Insurance
- Personal Liability Insurance

NIAGARA FINANCE COMPANY LIMITED

- Instalment cash loans for individuals and small businesses.

INDUSTRIAL ACCEPTANCE CORPORATION

LIMITED

EXECUTIVE OFFICES: 1320 GRAHAM BLVD.,
TOWN OF MOUNT ROYAL, P.Q., CANADA

OVER 400 BRANCHES ACROSS CANADA SERVING CANADIANS AND CANADIAN BUSINESS

the confidence of our customers is our greatest heritage!

Eaton's of Canada has grown in size and importance on customer-confidence—on the faith the buying public places not only in the selections and values, but in the descriptions found in Eaton Advertisements. One of the first steps in customer-confidence is the realization that what an Eaton ad says about goods and prices can be trusted.

If we should have any doubts concerning claims of quality, the merchandise must be tested and the statements approved by our Research Bureau before the descriptions may be used.

More important, perhaps than anything else in establishing customer-confidence in Eaton's advertising is the policy laid down by the founder of the firm—"Goods Satisfactory or Money Refunded".

EATON'S OF CANADA

Index to Authors — *Volume XXV*

BARBER, L. I.	Retail Competition and Trading Stamps	153
BLODGETT, G. S.	The High Cost of Triviality	34
BRETON, Raymond	The Social Effects of Advertising	55
BROWN, Logan R.	Organizing for Efficient Marketing	92
EDGE, C. G.	Towards Better Capital Budgeting	207
FRASER, Clare	A Map-Language for Managing	211
GRAHAM, J. F.	Business Education Under Fire	216
GRINDLAY, Andrew	Management of Quality Control	96
HAZARD, Leland	What Next in U.S. Labor Legislation	13
HOLLANDER, Louis	Barriers to Effective Marketing Research	102
KENNEDY, J. R.	Business Prospects for 1961	203
LADD, D. R.	Freight Rates and Transportation Costs	110
LEIGHTON, D. S. R.	Education and the Canadian Consumer	111
LEONARD, W. G.	Effects of Taxation on Business Decisions	148
LUSZTIG, Peter	Canadian Corporation Directors: A Profile	89
MacCULLOUGH, A. V.	In Defense of Decentralization	85
McIVOR, R. C.	The Radcliffe View of Monetary Policy A Canadian Commentory	221
McLEOD, A. N.	What Management Should Know About Interest Rates	18
MILLER, E. D. L.	Common Stocks As Estate Investments: Current Outlook	161
MYERS, J. G.	Foreign Licencing: An Export Alternative	167
RITCHIE, R. S.	Business in the Community	227
ROBINSON, R. M.	Is Our Secondary Industry Threatened by Japan?	143
SARJEANT, J. A.	The Dynamic Nature of Job Content	157
SHELSON, William	Operations Research in Practice	38
THOMPSON, Walter A.	Developing Managers on the Job	25
WILSON, G. W.	Freight Rates and Transportation Costs	107

Index to Authors — *Volume XXVI*

APPLETON, John M. ..... Soil, Water and Man 143

ARMOUR, Stuart ..... Will Tolls Kill the Seaway? 13

CLAWSON, H. J. ..... The Personnel Function: A Practitioner's Approach 249

DAVEY, A. R. ..... Cost Control Through Master Clerical Data 34

FINCH, Gordon R. ..... Policies For Corporate Giving 245

FISCH, Gerald G. ..... Organization Center Analysis 215

FOGGO, James M. ..... Systematic Marketing Planning 233

FOOTE, Emerson ..... New Market Frontiers of North America 165

FRY, Joseph N. ..... Testing the Market 18

Impact of a Shopping Centre: The Wellington Square Experience 89

FULLERTON, Douglas H. ..... Dynamic Bond Portfolio Management 237

HOLTON, Richard H. ..... Canadian Economic Growth in the Early 1960's .....

HUNTER, W. D. G. ..... Canada's Uranium Industry: A Crisis of Survival 226

JACKSON, R. W. ..... The Scientist in Industry 148

JOHNSON, Harry G. ..... The Case for Tariff Reform 25

KENT, T. W. ..... The Climate for Business 40

LUNDBERG, Craig C. ..... Organizational Decision Making: New Science and Age-Old Art 47

LUSZTIG, Peter A. ..... The Variable Annuity Debate 85

MACDOUGALL, Neil A. ..... Selecting Supervisory Personnel 178

MIKALACHKI, Alexander ..... The Process of Hiring 103

NEVITT, W. J. B. ..... Energy Concepts and Management Theory 97

O'NEILL, J. Gregory ..... Policies For Corporate Giving 245

PEITCHINIS, Stephen G. ..... Railways, Railway Wages and the Nation 77

Employment and Labour Costs in Canadian Manufacturing 152

REDDIN, William J. ..... Canadian Mutual Funds 171

SMITH, David C. ..... Canadian Economic Growth in the Early 1960's 109

You'll certainly drive a long way before you find one of T.C.A.'s new DC8's at an Imperial Esso service station. But they're important Imperial customers just the same.

The jet and the family car—together they mean lower gasoline prices

The new DC8 jets are powered by a special jet fuel, as carefully tailored for its job as the gasoline for your car.

Today gasolines and jet fuels are only two types of a whole range of products made by Imperial from petroleum. These products—over 600 of them—cover everything: gases which are turned into plastics, waxes for all kinds of needs, greases, lubricating oils, fuel oils and asphalts.

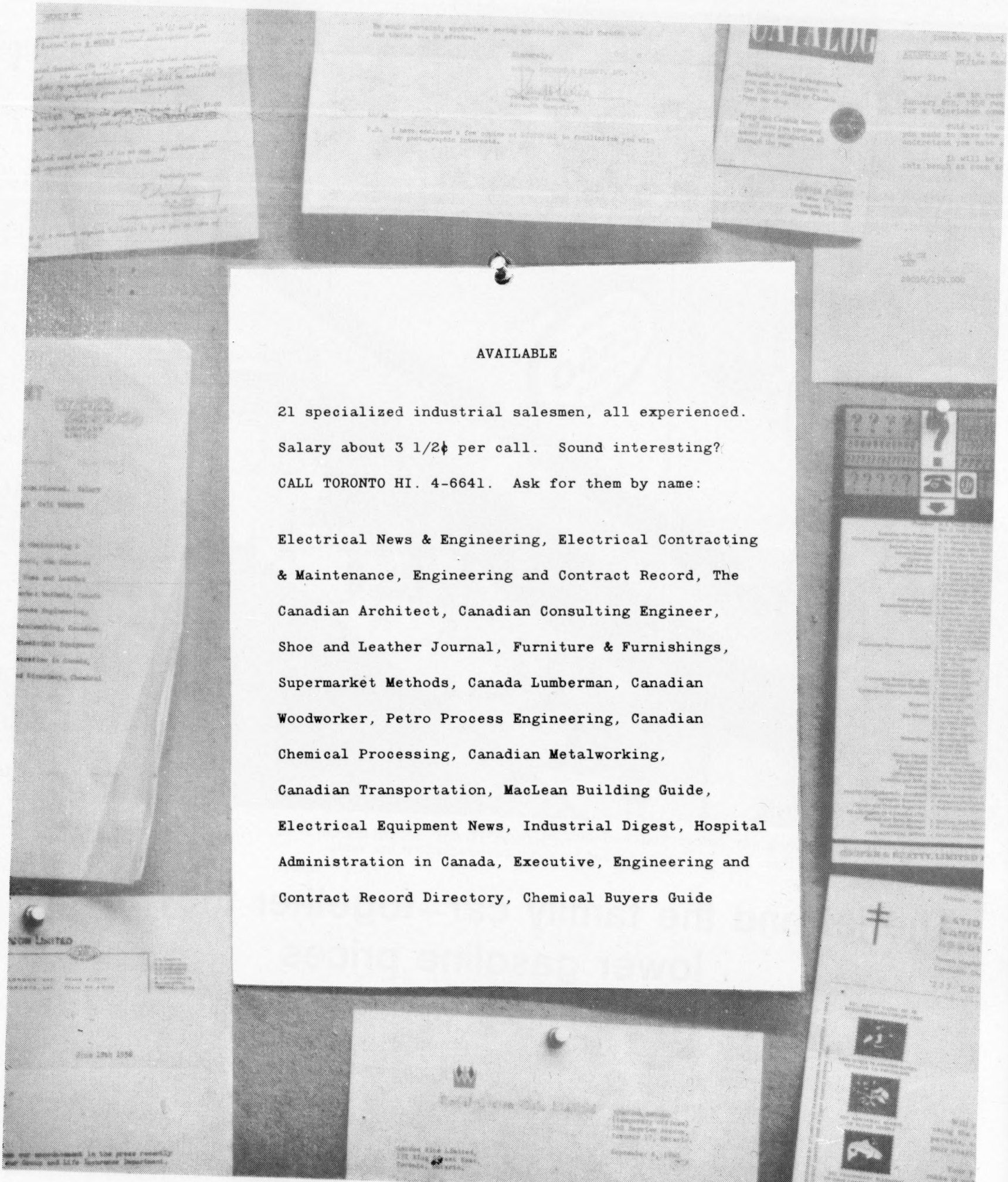
This efficiency in getting everything out of every gallon of crude oil is an important reason for lower fuel prices—whether for a DC8, a jalopy or the new family car.

Gasoline is a bargain: in the last five years the average price of things people buy has gone up nearly 16 per cent, while gasoline has actually gone down about half of one per cent.*

**DBS wholesale price index.*

Esso **IMPERIAL OIL LIMITED**

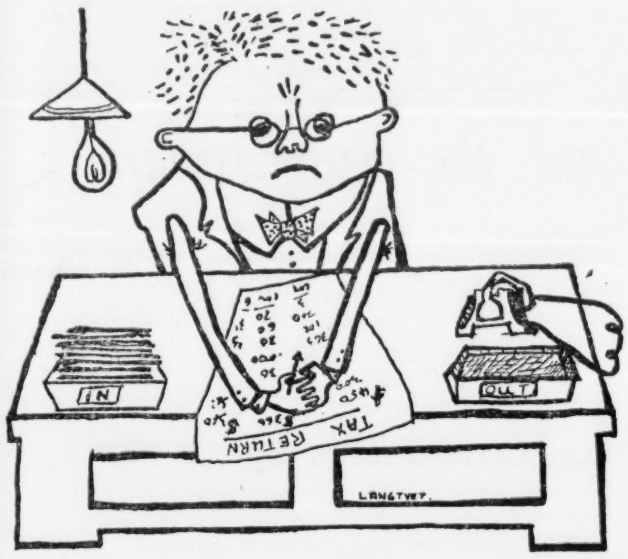
. . . for 82 years a leader in Canada's growth


AVAILABLE
21 specialized industrial salesmen, all experienced. Salary about 3 1/2¢ per call. Sound interesting? CALL TORONTO HI. 4-6641. Ask for them by name:
Electrical News & Engineering, Electrical Contracting & Maintenance, Engineering and Contract Record, The Canadian Architect, Canadian Consulting Engineer, Shoe and Leather Journal, Furniture & Furnishings, Supermarket Methods, Canada Lumberman, Canadian Woodworker, Petro Process Engineering, Canadian Chemical Processing, Canadian Metalworking, Canadian Transportation, MacLean Building Guide, Electrical Equipment News, Industrial Digest, Hospital Administration in Canada, Executive, Engineering and Contract Record Directory, Chemical Buyers Guide

SOUTHAM-MACLEAN
PUBLICATIONS LIMITED

BNA CCAB

1450 Don Mills Road • Don Mills • Ontario • HI. 4-6641



Canadian Taxation and the Businessman

K. W. LEMON, F.C.A.

Canadian income tax legislation first made provision in 1943 for the carry-forward or back of business losses against the taxable income of prior or subsequent years, but until 1958 losses could be deducted only from profits earned from the same business in which the loss was sustained. In 1958 this restriction was removed, and a taxpayer may now deduct his business losses from profits earned by him from *any* business during the year preceding the loss or the five following years. In the case of corporate taxpayers, however, this new privilege is available only in cases where 50 percent of the shares of capital stock have remained in the hands of persons who were shareholders during the year in which the loss was incurred. In cases where more than 50 percent of the shares have been acquired by new shareholders, the previous restriction still applies and losses may be carried forward only if the corporation continues to carry on the same business.

In these circumstances the determination of what constitutes carrying on the same business can become a matter of considerable importance to many Canadian businessmen. While no clear cut set of rules exists to answer this question, some guidance has been provided by a case decided by the Exchequer Court in 1960. In this case the operator of an automobile service garage purchased all of the shares of a company which previously had operated a similar garage but after losing a substantial sum of money had disposed of its assets and ceased operations. After the name of the "loss" company had been changed by supplementary letters patent, it acquired the assets and business of another garage in a different city and commenced operations again on a profitable basis.

Based on these facts the court held that the business carried on after the recommencement of operations, although similar, was not the business in which the previous loss had been sustained and, therefore, the old loss could not be carried forward against the new profits. In reaching this decision the court stressed the fact that the company had ceased operations and implied that for this reason alone the business commenced at a later date must be a new business for the purposes of The Income Tax Act.

This decision, undoubtedly, will result in a marked decrease in the values attached to the charters of "loss" companies which have ceased operations. It is to be expected, however, that some taxpayers will continue to show interest in such charters in view of the wording of the statute, which does not restrict the deduction of losses to those incurred in the same business in cases where 50 percent of the shares of the company have been retained by persons who were shareholders during the loss year. Such taxpayers will have noted with interest that the applicable section of the Act does not distinguish between various classes or par values of shares or even between voting and non-voting shares but merely requires that 50 percent of the number of shares (without regard to class or par value) must not have come into possession of persons who were not shareholders at the time of the loss. They will also have concluded that the section of the Act which deals with options to acquire shares has not been made specifically applicable to the "loss carry-forward" provisions, so that the acquisition of an option to acquire shares is unlikely to be regarded as a change in ownership for the purpose of such provisions.

As long as such opportunities are available under existing legislation, the Canadian businessman can anticipate some continuing market for the charters of "loss companies."

Canadian Law and the Businessman

PETER V. V. BETTS

THE UNCONSCIONABLE TRANSACTIONS RELIEF ACT

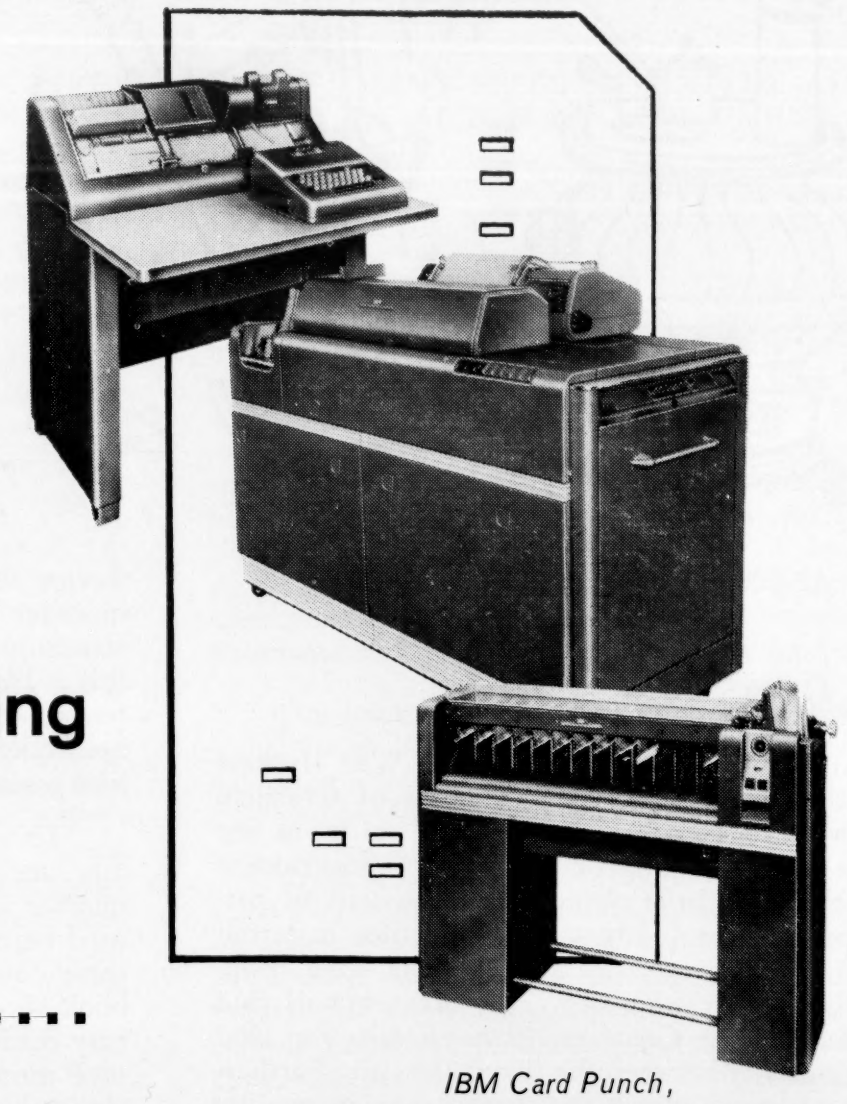
The Unconscionable Transactions Relief Act 1960, Revised Statutes of Ontario, Chapter 410, probably deserves to be better known. Section 2 in part provides that "where, in respect to money lent, the Court finds that, having regard to the risk and to all the circumstances, the cost of the loan is excessive and that the transaction is harsh and unconscionable, the Court may re-open the transaction . . ." and grant certain other relief.

This recently received judicial interpretation in Scott v Manor Investments Limited, 1961 O.W.N. 210. Scott and his wife owned a house which they had bought in 1955 for $13,500 and on which they still owed $10,000 by way of first mortgage. They were attracted to Manor Investments Limited not only by the obvious confidence that the name inspires, but also by an advertisement of theirs in the public press to the effect that mortgages could be arranged without bonus. After signing a number of forms, they found themselves committed to a second Mortgage of $3,200 with interest at 12% per annum, but the proceeds of the loan turned out to be only $2,375. Manor Investments Limited retained the balance $825 for themselves while charging interest at 12% on the full $3,200 which over the three year term of the mortgage amounted to $1,152. The loan over three years thus cost the Scotts $1,977 as follows:

Bonus	$ 700.00
Commission	125.00
Interest	1,152.00
	$1,977.00

The net result was that after making their monthly payments of $45 faithfully for the full three years, they owed Manor Investments Limited more ($2,655.93) at the end of that time than they had borrowed at the beginning ($2,375). At page 212 of the report His Honour Judge Timmins states—"A fair test in these cases, having regard to the authorities, would seem to be, could the loan have been procured for less? . . . In this transaction having regard to the cost of loan, the smallness of the risk, the circumstances and financial record of the borrower, the character of the security taken, I consider the cost of the loan is excessive and that the transaction is harsh and unconscionable within the meaning of the statute . . . The cost of loan, in the circumstances of this case, which works out to interest at approximately 27.5%, I consider an abomination. This borrower was a small man—but he was a citizen with character, a good record of payments, a house, a car, and a job. If 27.5% is the rate of interest that could be charged within the law, in the circumstances here, then the average man would be in the grip of a vicious financial squeeze where he would never get out of debt, and it would be a sad commentary upon the standard of living of our citizens. I consider the manner of obtaining the loan by the lender company to be . . . (questionable). If there was to be a bonus, the mortgage agreement form . . . didn't mention it. Interest was placed at 6½% in the agreement, but that soon changed to 12% in later documents. The arranging commission of $125 was in the agreement, but it never appears again until after the transaction was completed."

Continued on page 274



IBM Card Punch,
IBM Accounting Machine and IBM Sorter

Do your accounting with these IBM Units....

More than likely your company can use an IBM Punched Card System to considerable advantage for general accounting, payrolls, analyses of any kind, daily reports for management, complicated manufacturing formulae and many other computations.

IBM Punched Cards can be used wherever there is a sufficient volume of data. They provide fast, and accurate records, eliminate bottlenecks and streamline all accounting procedures. Systems can be as small as two units, with other units added as the job demands.

Companies using IBM punched cards find them very, *very* time saving and efficient. Why not investigate the possibilities of using them in your company? An IBM Representative will be glad to give you detailed information.

IBM*

punched card systems

INTERNATIONAL BUSINESS MACHINES COMPANY LIMITED
Don Mills (Toronto), Ontario
Branches in principal cities

▲

*Trade Mark

BOOKS FOR THE BUSINESSMAN

CANADIAN ANNUAL REVIEW FOR 1960

Edited by John T. Saywell, University of Toronto Press, 1961, 401 pp. $15.00.

Shortly after the beginning of World War II there appeared on the market the last of a series of Canadian Annual Reviews, which was first published early in the 1900's. It was a rather dull compendium of government statistics, speeches, and brief notes on the activities of parliament, company reports, and a host of other materials most of which were available by then in some other form. Anyone who is familiar with this "old" Review will find after a mere glance at the *Canadian Annual Review for 1960* that the only similarity between the two is the title. Furthermore, if future editions match the present one in quality, style, breadth and depth of coverage, and timeliness, the new Review will become a reference work so indispensible that it will deserve a place in almost every home or office.

Editor John T. Saywell, the historian and political scientist from the University of Toronto has moved on from his scholarly yet lively study of the *Office of the Lieutenant Governor,* transferred his enthusiasm and very readable style to his contributors, and produced a Review which fills a rather glaring gap in the Canadian scene. Necessarily it contains some descriptive material, but it assumes very properly that one has read some of the newspapers of the year and can read the Canada Year Book for the routine statistics, and devotes the bulk of its pages to a critical and thought-provoking analysis of the events of the year. Herein lies its strength, for it gives us a kind of coverage previously unavailable—the kind usually turned out by the historian some 50 years later.

Beginning with the Editor's own coverage of Parliament and Politics (in which he lets the chips fall where they may—some on Mr. Diefenbaker, others on the medical profession of Saskatchewan, more on Mr. Bennett) the Review covers External Affairs and Defence (with refreshing analyses of the roles of Mr. Green and Mr. Pearkes), the National Economy (aided by only a bare minimum of statistical tables) and concludes with a section on Life and Leisure (a rather large Ark into which a wide variety of animals has been gathered) which looks at education, law, science, the arts, and sports. A final section, containing death notices from the year's press, concludes the Review. Most contributions contain some historical material in order to provide the background needed for an understanding of the events they deal with, but in the future this is likely to disappear, for the contributors Mr. Saywell has selected—all well versed in the area they discuss—need only refer the reader to the previous Reviews for such background.

To the average book buyer the price of the Review may seem somewhat high when judged purely on the number of pages he is getting. Other standards must be used here, however, for in addition to having a very handsome cover the book is "built to last," just as a reference book should be. Not only does it provide fascinating and easy reading the first time 'round, but in the future it will save more than its cost in the hours of research time it saves the business librarian, the speech maker, and the general reader.

Finally, it is to be noted that its publication date was May 5, 1961—a remarkable feat considering the attention which it was obviously given. If the most valuable review of the past is the one which appears early, this series will have much merit.

It is a pioneering venture, but it now has solid foundation. This Review for 1960 deserves a place in every company library; many executives will want personal copies as well.

C. Kennedy May, U.W.O.

MONEY AND CREDIT: REPORT OF THE COMMISSION ON MONEY AND CREDIT

Prentice-Hall Inc., Englewood Cliffs, New Jersey, 1961, 282 pp., Cloth bound $3.95, paper bound $2.00.

Note: A summary of the Report containing all the recommendations that appear in the full Report is available for $.50 from the Commission on Money and Credit, 711 Fifth Avenue, New York 22.

The members of the Royal Commission to study Canada's financial structure were appointed a few weeks ago just about twenty-five years after the Macmillan Commission Report appeared, the report that resulted in the

establishment of a central bank in Canada. As the work of the "Porter" Commission progresses, most businessmen will find themselves at times listening to discussions on the various aspects of this study, sometimes, unfortunately, by ill-informed if not uninformed participants.

This review is not an attempt to analyze the Report of the Commission on Money and Credit; far more authoritative persons have already done this. However, it is an attempt to stimulate interest in the study. The lay reader will not become an expert on the subject of Money and Credit, but he should acquire a worthwhile appreciation of some of the problems faced by our monetary and fiscal authorities.

Money and Credit, "the first comprehensive survey in a century of public and private financial institutions, policies, and practices in the United States," was published in June 1961 at the very time that public interest in monetary and fiscal matters was at an all time high in Canada.

Among the questions to which the Commission addressed itself were: Has the nature of the economy so changed that traditional adjustment and control mechanisms are no longer adequate? Has the legacy of excess liquidity in the economy now been wrung out, and is a change in Federal Reserve Policy in regard to the growth of the money supply now required? Has too much reliance been placed on monetary policy and not enough on debt management, fiscal, and other credit policies to achieve national objectives? Can the regulation of the private financial structure contribute more effectively to stability and growth? How can government procedures be developed to ensure the necessary interchange of views on economic policy matters among the affected agencies and to coordinate policy measures to meet national objectives?

While definite answers were found to none of these questions, the discussion of them, including such dissenting opinion as the lengthy and rather devastating criticism by the Vice-Chairman of "the Commission's failure to deal adequately with the past and especially the future," is well worth reading, particularly for a Canadian. Almost any policy aimed at the solution of these questions by the U.S. government would surely have repercussions on the welfare of the sparcely populated country to the north. Furthermore, the almost ninety recommendations deal with many subjects that will be closely examined in Canada during the next two or three years.

The outlay of almost one and a half million dollars to finance the final report and the one hundred and eight special studies submitted in its support by leading monetary experts was largely financed by the Ford Foundation. Thus, in an important sense, the recommendations do not carry the weight of those made in, for instance, the Radcliffe Report in Great Britain. They will not, perforce, be discussed by Congress. Nevertheless there can be little doubt but that the report will be widely read. Although less direct, this kind of impact often carries a weight as immeasurable as it is potentially powerful.

The book is not hard to read. Nor should one necessarily start at the beginning and, in the way of the conformist, read on to the end. Each chapter is a study in itself.

A word of warning to the layman: "if, when you start to read this book, you feel that you must understand each statement fully before 'carrying on,' you will never finish. Neither will the expert!"

J. C. Taylor, U.W.O.

AUTOMATION: ITS IMPACT ON BUSINESS AND PEOPLE

by Walter Buckingham, Harper & Bros., New York, 1961, 166 pp. $4.50.

MANAGEMENT PROBLEMS IN THE ACQUISITION OF SPECIAL AUTOMATIC EQUIPMENT

by Powell Niland, Harvard Business School, Division of Research, Boston 63, Mass., 1961, 336 pp., $5.00.

Automation has become an accepted fact of life now, and much of the sound and fury which accompanied it a few years ago has diminished. The problems inherent in increasing use of automation are still with us, however, and are growing. In spite of the attention which the subject has received, the amount of research in the use of automation in business is still small. Nevertheless, enough has been accomplished in the last few years that Walter Buckingham, Director of the School of Industrial Management at Georgia Institute of Technology and a well known authority on automation, has been able to write a book which reviews most of the research of merit.

The book is directed to the responsible citizen who wants to be better informed. In that respect, the author has done a good job of presenting complex ideas so that they can be followed by the layman.

After a discussion of the development and current state of automation, Dr. Buckingham discusses its impact on management. From the results of studies by Joan Woodward[1] and James R. Bright[2] he concludes that computers will allow management to cope with increasingly complex business problems; that automation will permit closer integration of control and supervision; that flexibility and cooperation of supervision will become more important; that technical competence will become more necessary in making administrative decisions; that planning, coordinating, and controlling the operations of the firm will become fundamental activities for management, that future managements will require more professional and technical education. Later Dr. Buckingham examines the impact of automation on economic enterprise (more decentralization), on the worker (more flexibility, mobility, education, alertness, and progressiveness), on unemployment (a high national economic growth rate is imperative), on planning and consulting for automation (necessary - especially in preparing personnel for change), and on social and economic progress (requires some changes in government and business behaviour).

A broad-gauge treatment of a complex subject such as automation must always suffer to some extent from the fact that generalizations are not too useful in attacking specific problems, while the detailed treatment that the problems need requires a presentation too difficult for the layman to comprehend. Buckingham acknowledges this difficulty early in his introduction. Nevertheless the reader who wants to think about action to implement automation or to counteract the problems arising from automation will feel frustrated. The generalizations are too general. The action is too vague.

[1] "The Effects of Technical Innovations on Management Administration," International Associates for Cybernetics, Namur, Belgium, 1958.

[2] "Automation and Management," Graduate School of Business Administration, Harvard University, Boston, 1958.

As an introduction to automation, however, *Automation* has much to recommend it. It takes a relatively unbiased look at the problems and characteristics of automation. Many of the overstatements popular in the press are analyzed and found wanting. The original studies that Buckingham uses to support his arguments are later examined. Consequently, this book gives the businessman a sound basis for attacking many of his own problems.

A work which, if it had been published in time, Buckingham would probably have included as a reference, is Niland's *Management Problems in the Acquisition of Special Automatic Equipment*. Unlike *Automation* and some of the works on which it was based, Dr. Niland's book *Problems* is a penetrating examination of one aspect of automatic manufacture, the acquisition of the equipment.

Dr. Niland concentrated on some particular problems of acquisition: "debugging," make or buy considerations, relations with vendors, product design considerations, and the analysis of special automatic equipment proposals. In each of these problems, he discovered that many difficulties could be avoided through effective prior planning and analysis.

The author concludes that the acquisition of special automatic equipment is a complex and difficult task, much more risky than is the acquisition of production facilities generally, and therefore requires careful risk management if it is to be profitably pursued. In each problem area he discusses specific ways of organizing and carrying out acquisition procedures which facilitate analysis and control of risk and aid in achieving equipment that will require minimum debugging.

Professor Niland's study is particularly pertinent in view of the increasing practice of manufacturer's making or buying special equipment that is uniquely constructed for producing a particular product and for high volume output. These are not the "standard" machines which these same manufacturers may have been accustomed to acquiring, and many of the normal assumptions about vendor capabilities and practices prove to be incorrect when such "specials" are purchased and operated. Special automatic equipment suffers from the problems and innovation —extensive debugging and development after startup, design mistakes, and often insufficient attention to the environment in which the machine must operate.

The emphasis which writers and researchers have been placing on prior planning arises from the high penalties inherent in their neglect, ranging from high debugging and downtime costs to complete failure of the equipment to achieve economic performance levels. Also, machine tool builders are faced with a new set of demands when they undertake to design and build special automatic equipment. The use and integration of electric, hydraulic, electronic, pneumatic, and mechanical controls with the process is new and rapidly expanding and requires special design approaches. Few, if any equipment manufacturers have had adequate backgrounds in these techniques. Therefore it falls on the vendor to aid and, to a large extent, control the coordination of control equipment suppliers and the equipment builder.

Emphasis on careful detailed analysis of proposals is another desirable step in the acquisition of special automatic equipment. There are many cost factors which can be ignored when acquiring standard manufacturing equipment which cannot with the automatic. Debugging cost is an example. Investment is another difficult amount to determine. A thorough analysis of required investment should include careful assessment of engineers' and planners' expenses. When part of a project group, they often represent a significant part of the investment in new equipment.

The use of automatic integrated production facilities represents such a radical change from the use of conventional facilities that planning for them is rapidly becoming an important area of management consideration. Dr. Niland's study has provided much in the way of information and advice for better performance of prior planning. *Automation* provides a broad survey of the implications of automatic manufacturing for industry and the economy. *Management Problems in the Acquisition of Special Automatic Equipment* provides needed depth and detail in an area—acquisition—which has proved critical in successful use of automatic equipment.

A. R. Wood, U.W.O.

PATTERN IN ORGANIZATION ANALYSIS: A CRITICAL EXAMINATION

By Sherman Krupp, Chilton Co., Philadelphia, 1961, 201 pp. $5.00.

This is a disturbing book. Most volumes on organization and management attempt to tell their readers either the things managers believe or what they should believe. Professor Krupp, however, examines the themes or premises in modern organization theory that express the values in our descriptions, practices, and polices of management. It is this exposure of the underlying values of our managerial points of view that I term *disturbing*. Such a book is, however, eminently useful,for it bristles with suggestions for more objective or scientific (hence useful and accurate) organization theories.

In the heritage of modern organization theory (since F. W. Taylor and "scientific management"), a "harmony-of-interest" theme figures prominently. This makes conflict either pathological or beyond theory -- thus management's historical desire for "cooperation" is a one-sided view, perhaps reducing our democratic pluralism or prompting the extension of monopoly or power. These and other values are not easily seen in our organization theories yet they do exist, and, if so, it becomes more intelligent to face them than to hide our heads in the sand. After Professor Krupp has provided a criticism of *decision-making, equilibrium,* and *goal-*

Continued on page 268

The SUN LIFE AGENT IS EXPERT, TOO!

Yes, in planning a man's estate, the life insurance agent can work closely with the lawyer, the accountant and the trust officer in providing the client with the best possible advice. For every estate needs dollars that will be immediately available to meet death taxes and other expenses attending death and so preserve the other assets of the estate. These are the dollars which life insurance can provide.

And remember, when you are dealing with the Sun Life, you are dealing with one of the world's great life insurance companies. Sun Life maintains 150 branch offices in key cities in Canada and the United States, with agency representation from coast to coast. With a wide variety of up-to-date policy plans, and with highly qualified representatives, Sun Life is in a position to offer the very finest in life insurance service.

SUN LIFE ASSURANCE COMPANY OF CANADA

Head Office: Montreal

Clarkson, Gordon & Co.

CHARTERED ACCOUNTANTS

Montreal	**Winnipeg**
Toronto	**Regina**
Hamilton	**Calgary**
London	**Edmonton**
Windsor	**Vancouver**

An Important Message to . . .

Professional Men
Business Executives
Purchasing Personnel

For dependable fast service, outstanding workmanship and distinctive printing call

GLadstone 1-6600

or write P.O. Box 293 and have our representative call and give you a quotation on your next printing or lithographing requirements.

Hunter PRINTING LONDON LIMITED

125 Elm Street (corner Pine)
P.O. Box 293, London

Telephone
GLadstone 1-6600

implementation, etc., as they are presently conceived and acted out by management and theorists alike, one wonders how we can overthrow our dependance on traditions of conservatism, economic rationality, and the doctrines of classical liberalism. Suggested as more suitable for the analysis of organizations would be a theory focusing on authority in society, theory including power, conflict, and economic variables in addition to those emphasizing a technology for efficiency and control and the coordination of human beings into a functional, integrative unity.

Beginning with a critique of Taylorism (scientific management) concentrating on the coordination of worker and machine, the book moves on to a criticism of Mayoism (human relations in industry) for the implicit over-emphasis of the subordination of the worker to the social structure of the organization. Recently developed organization theory is shown to be behavioristically oriented with a theme of concern for workers' adjustment. The contemporary notion that organizations should simultaneously fulfill the needs of their members, achieve the organization's goals, and supply the material needs of society is the end-product of the above mentioned traditions—and this notion expresses rather neatly that "harmony-in-interest" is a major, but not the dominant, value in modern organization theory. Happily Professor Krupp restrains himself in judging these findings, assuming that when the issues are clear we as individuals can make a *good* choice.

In summary then, your reviewer would recommend *Pattern in Organization Analysis* as a thought provoking book of the first magnitude. A wealth of illustrations and an easy style are unexpected dividends in such a book. The student of organization, whether he be executive, organizational drone, professional, or professor will find himself referring repeatedly to the arguments in this book.

Craig C. Lundberg, U.W.O.

REALITY IN ADVERTISING

By Rosser Reeves, McClelland and Stewart, Ltd., Canada 1961, 154 pp. $3.95.

For many years Madison Avenue has endeavoured to place advertising on a higher plateau and on a more realistic basis. Rosser Reeves, chairman of Ted Bates and Company has attempted in this book to do just that. He has answered critics such as Galbraith and Packard and put advertising measurement on a more scientific basis. Other critics of this book have said that his theories are simply well know fundamental truths and that *Reality in Advertising* is just a sales brochure for Ted Bates and Company. Admittedly, Bates received a six million dollar account as a direct benefit from this book and most of what he states has been known for some time, but, if these theories are so fundamental, why have they not been placed in a neat bundle before and put forth to give advertising a more solid footing in the world of business?

Reeves builds his case for reality on the assumptions that: advertising does not have the power to create desires, advertising is essentially a substitute for a personal sales force, and there is a multitude of other forces that affect sales. One of the great failings of advertising has been the inability to measure accurately the results of a campaign. To solve this problem, the author suggests, first of all, a comparison of the number of people who remember and who do not remember current advertising. The difference between the number of customers in each group will show "how many have been pulled over to the usage of the product by the advertising."

Now that this tool is available, the task remains to set up an effective program that will result in high "usage pull." In order to do this the author suggests some more fundamentals. Reeves claims that changing a copy story cuts down on penetration as the consumer tends to retain just one strong

Cochran, Murray & Co.
LIMITED
Member
Investment Dealers' Association of Canada
•
Cochran, Murray & Hay
LIMITED
Member of the
Toronto Stock Exchange
Dominion Bank Bldg., Toronto, Telephone EM. 3-9161
Hamilton Kitchener London
8748

SERVICE

To Investors

Investors are invited to avail themselves of any of our services, to call upon us for recommendations regarding the purchase or sale of securities.

Members
The Toronto Stock Exchange
Montreal Stock Exchange
Canadian Stock Exchange

Members through affiliate
American Stock Exchange
(Associate)

To Industry

Capital requirements of corporations usually change with business conditions. Plant expansion, modernization of existing plant or more working capital often mean more profits.

We shall be pleased to discuss without cost or obligation to you, methods of providing additional funds for your particular need.

DOMINION SECURITIES
CORPORATION LIMITED
Established 1901
Toronto Montreal Winnipeg Vancouver New York London, Eng.

75th ANNIVERSARY 1886

75 YEARS

OF

PACKAGING

EXPERIENCE

★

SOMERVILLE

LIMITED

"THE NAME THAT STANDS FOR MORE THAN QUALITY"

It's a name synonymous with leadership in packaging, folding cartons, lithography, point-of-sale displays, automotive trim and industrial hardboard

★

Sales Offices

LONDON MONTREAL TORONTO
PETERBOROUGH KITCHENER
HAMILTON AND WINDSOR

Sales Representatives

COAST TO COAST

claim from the ad; the penetration of an ad tends to push out competitors; an ad must be persuasive not just decorative. To have "usage pull" the author claims that the campaign must have a "Unique Selling Proposition." He defines this as a proposition made by an ad to the consumer, and one that competitors can not or do not make, that is so strong it pulls over new customers. To do this requires some unique product feature or the revealing of some attribute that appears unique.

Using "U.S.P." as the test, the author looks at several campaigns and points out some lessons to be learned: repetition increases U.S.P.; secondary claims may cut down pull; if video and audio are not locked together by a common theme, U.S.P. will be decreased; functionalism in copy must not be sacrificed to originality; and dispersion is more important than frequency for penetration of appeal. Although these principles have been developed in the package-goods area, the author states that they are applicable in other lines as well.

Mr. Reeves asserts that these principles have not been dreamed up and put together theoretically, but have been learned in the school of trial and error over many years. They are the results of millions of dollars of experiments and research on clients' campaigns. When Madison Avenue, the author states, begins to use the scientific approach, then, and only then, will advertising be started on its way to becoming a profession.

Robert G. Wyckham, U.W.O.

ADMINISTRATIVE COMMUNICATION

By Lee O. Thayer, Richard D. Irwin, Inc., Homewood, Illinois, 1961, 344 pp. $6.50.

This is a book written *to* administrators and students—yet it is neither reference book, "how to do it," or text. It is, strictly speaking, a survey of what is and is not known about com-

Wm. E. McIlroy Ken G. Porter

Albert Lawrence

MOORE - SMYTH
WILLIS
Limited

General Insurance

Telephone GE 2-7558

260 Dundas St. London

JEFFERY
&
JEFFERY

Barristers, Solicitors, Etc.

174 King Street

London Canada

CARROTHERS, FOX, ROBARTS, BETTS, MENZIES & McLENNAN

C. C. Carrothers, Q.C., B.A. LL.D., F.C.I.S.
William H. Fox, Q.C., B.A.
Hon. John P. Robarts, Q.C., B.A., LL.D., M.L.A.
Peter V. V. Betts
John L. Menzies, B.A.
D. L. McLennan, B.Com.

Telephone GE 4-3208

Offices Richmond Building

Box 398

London Canada

O. Roy Moore Associates

ARCHITECTS

R. E. MURPHY, B.Arch., M.R.A.I.C.

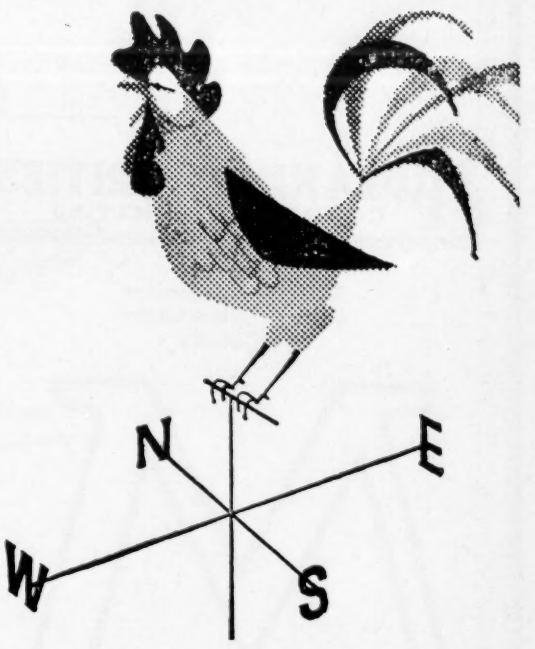
260 Dundas Street

London Ontario

munication—the process which management is almost entirely dependent upon. Frankly this is a thought-provoking book; its ideas are well sustantiated and yet it is so eminently readable that one comes away with the impression Professor Thayer knows what he is talking about, that is to say the book communicates.

If you are interested in understanding a key organizational process and are also interested in a clear statement of the behavioral science foundation upon which this understanding is based, then *Administrative Communication* belongs on your reference shelf. This book can be easily read in bits and pieces. The early chapters treat the natures of people, communication, and administration. Part two takes up the qualities of administrative communication: effectiveness, efficiency, and clarity. Part three discusses the functions of communication: informative, evaluative, instructive, and influential. In part four thinking and semantic aspects are fully commented upon, as are the mechanics of communication. Current problems and research in administrative communication and the relationships between organizational behavior, structure, and individuals are spelled out in closing the body of this book. An added bonus is the extensive bibliography (thirty-three pages) and appendices on "how to write," "reports," and "memorandum" for the person who is not satisfied with a comprehension of the "why's and wherefores" of communication.

Two brief illustrations of the type of ideas and level of presentation found in the book are mentioned below, not to represent a "sample" but to stimulate your own persual of the book. Try thinking of the communication behavior in your organization in terms of this communication sequence and see if it does not permit some new insights. Ask yourself who says, or does not say, what, to whom, when, in what way, under what circumstances, with what effect. Another illustration is taken from the chapter on the informative



let the BNS help you keep a "weather-eye" on business!

Many a businessman finds that some of the most helpful reading he puts in each month is the time spent reading the BNS Monthly Review, which is written by the Bank Economists. Each month it offers an analysis of economic developments of current importance. It's yours *free*. Pick up a copy at your nearest branch of

THE BANK OF NOVA SCOTIA

Five Branches in London to Serve You

MIDLAND SECURITIES
CORPN. LIMITED

Member Investment Dealers' Association of Canada

THE MIDLAND COMPANY
LIMITED

Member

Toronto Stock Exchange

Montreal Stock Exchange

Canadian Stock Exchange

•

STOCK ORDERS EXECUTED ON ALL STOCK EXCHANGES

•

Private wire service to all offices and New York

TORONTO
MONTREAL
SAULT STE. MARIE
ST. THOMAS
KITCHENER
BRANTFORD
HAMILTON
SARNIA

Head Office
801 HURON & ERIE BUILDING
LONDON
GEneral 8-1771

function of administrative communication. Thayer states, "In the section just preceding, I have touched upon an aspect of the fundamental and most pervasive barrier to communication—crucial differences in what people will attend to at any moment and in the values they assign to aspects of their individually perceived worlds. This particular barrier . . . underlies all other "barriers" to effective communication . . . But for the purposes of intensifying this analysis . . . we might specify five other "barriers" . . .: (1) organizational barriers; (3) interpersonal barriers; (3) individual barriers; (4) economic and temporal barriers; (5) channel and media barriers. Let us examine each of these in turn." And when Thayer has led you through this analysis, you *will* understand. If you are concerned with improving the effectiveness and reducing the costs of communication in organizations, this book is highly recommended.

Craig C. Lundberg, U.W.O.

THE FOLKLORE OF MANAGEMENT

By Clarence B. Randall; Little, Brown and Co., Boston and Toronto, 1961, 204 pp. $4.75.

How can one smallish book be both so compelling and repelling at the same time? How can there be so much I believe—and at the same time so much I do not believe: The answer to these questions relates to both style of writing and number of ideas. One of America's "elder statemen" of industry offers us such a book. Clarence Randall, recently of the Inland Steel Company but now retired, has put together a volume which no reader can be bored with, for it concerns itself with the dogma of management, especially those myths created and sustained by the management men of large industry.

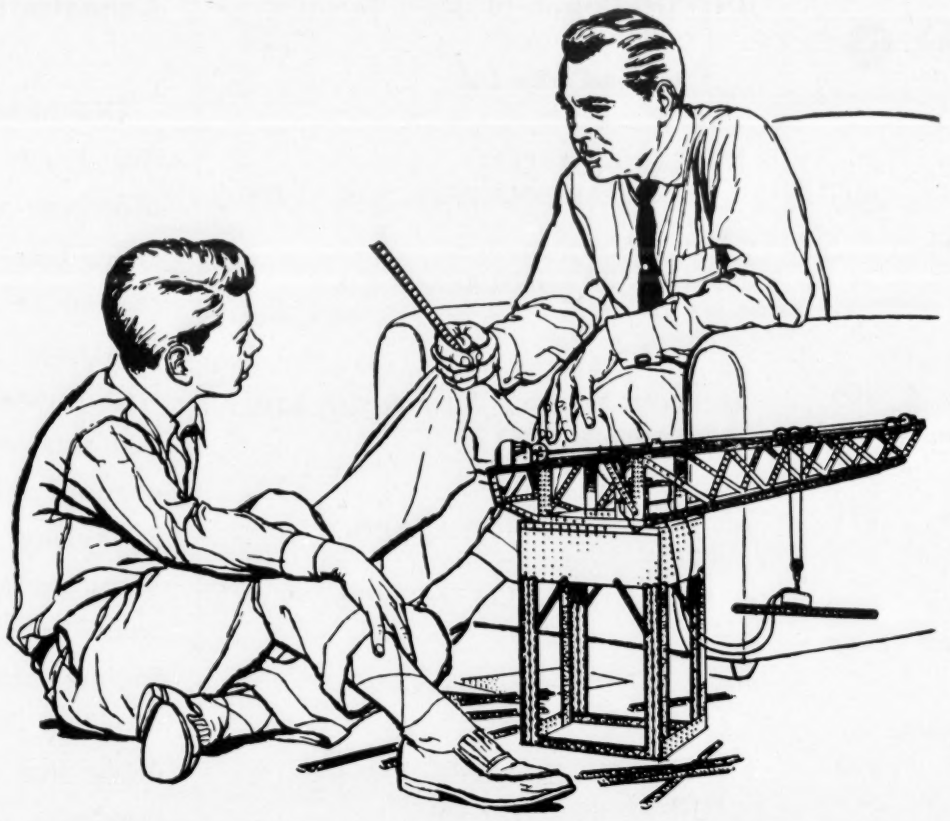
Randall believes that the experienced, mature business man should attempt to put down on paper his accumulated "wisdom." That he can easily do so in a manner that communicates instead of confuses, educates instead of brain washes, is perhaps a myth by which Mr. Randall is deluded. Not that the examination of management's sacred cows or the practice of sharing from a rich experience is not healthy. On the contrary, inward-directed self-searching is "precisely what American industry most urgently needs in this period of crises." The myth here is that businessmen do have the "words," and all that is now required is the telling.

It is the telling that affronts this reviewer. Randall is a master or emotionally laden language and the beguiling if inexact analogy. For example, consider the applicability of the following. "Business must learn this: Every general should be a sharpshooter if possible, but the fact that a man qualifies as a sharpshooter is no indication at all that he can become a general."

This little admonition (or is it a prescription) does "sound" good and might provide a nice filler in a after-dinner speech- - - but what does it tell us that will let us improve our business practices, Randall has noted much of what can be criticized in industry, yet, I ask myself, why does he not give us some solid, constructive suggestions instead of retreating to such generalities as extolling the values of the "free enterprise system." Certainly the chapter headings excite the reader enough to plunge in (for example: the myths of Communications, of the Almighty Dollar, of the Cost Cutter, of the Rugged Individualist, of the Overworked Executive, of the Organization Chart). The critiques are stinging enough, but when the shouting is over why has Randall not taken his own advice, namely, "What difference does it really make, for example, what the average man thinks about anything;" "We need, instead, consuming zeal for the cult of the distinguished - in ideas, in minds, in character, and in leadership."

This reviewer believes Clarence B. Randall is not an average man - - - and therefore by his own dictum he must offer positive guidance. We shall not expect "tablets of stone handed down from the mountaintop to embody eternal truth," just a sharing of more than "negative wisdom."

Craig C. Lundberg, U.W.O.



When the Men in the Family Get Together . . .

Those private 'man-to-man' talks are precious moments. They are a time for talk and a time just for looking — to watch the development and curiosity of youth. In this country, there is much for a boy and his father to share. An awareness of the expansion and growth of Canada is a major opportunity . . . exciting to both young and old.

Just as you and your boy share in our prosperity, so does Steel play a major role in Canada's growth.

To meet the rapid expansion of our country, the Steel industry must keep pace. STELCO alone has invested about 150 million dollars in plant and equipment in the last ten years, and will spend more than another 100 millions in the next five years.

Great needs create great opportunities. For you now, and for your son in later years, Steel offers satisfying and rewarding careers of unlimited scope. Look to Steel for you—and your son.

STELCO
THE MARK OF QUALITY

THE STEEL COMPANY OF CANADA, LIMITED

HAMILTON - MONTREAL

Our Advertisers

WINTER 1961 ISSUE

A. E. AMES AND CO. LTD. 207
MacLaren Advertising Co. Ltd.

BANK OF CANADA
INDUSTRIAL DEVELOPMENT
BANK 206
MacLaren Advertising Co. Ltd.

THE BANK OF NOVA SCOTIA 271

THE CANADA LIFE ASSURANCE
CO. 2nd Cover

THE CANADIAN IMPERIAL BANK
OF COMMERCE 205

CANADIAN GENERAL ELECTRIC CO.
LTD. 3rd Cover
MacLaren Advertising Co. Ltd.

CANADIAN WESTINGHOUSE CO., LTD.
McCann-Erickson (Canada) Ltd.

CARROTHERS, FOX, ROBARTS, BETTS,
MENZIES AND MCLENNAN
BARRISTERS AND SOLICITORS 271

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS 268

COCHRAN, MURRAY & CO. LTD. 269
Vickers & Benson Ltd.

DICTAPHONE CORPORATION LTD. ii
Young & Rubicam Ltd.

DOMINION SECURITIES CORPORATION
LTD. 269
Cockfield Brown & Co. Ltd.

THE T. EATON CO. LTD. 256

GREENSHIELDS & CO., INC. 207
Cockfield Brown & Co. Ltd.

HUNTER PRINTING LONDON
LIMITED 268

IMPERIAL OIL LIMITED 259

INDUSTRIAL ACCEPTANCE
CORPORATION, LTD. 255
Vickers & Benson Ltd.

INTERNATIONAL BUSINESS MACHINES
CO. LTD. 263
Thornton Purkis Ltd.

JEFFERY & JEFFERY
BARRISTERS, SOLICITORS, ETC. 270

LONDON LIFE INSURANCE CO.
4th Cover

MCLEOD, YOUNG, WEIR & CO. LTD.
Thornton Purkis Ltd.

MIDLAND SECURITIES CORPN.
LTD. 272
James Lovick & Co. Ltd.

MOORE-SMYTH-WILLIS LTD. 270

OFFICE SPECIALTY MFG. CO. LTD. iv
F. H. Hayhurst Co. Ltd.

O. ROY MOORE ASSOCIATES,
ARCHITECTS 271

NORTHERN ELECTRIC CO. LTD. 204
Foster Advertising Ltd.

THE ROYAL TRUST CO. 208
McKim Advertising Ltd.

SOMERVILLE LTD. 270

SOUTHAM MCLEAN PUBLICATIONS
LTD. 260
Heggie Advertising Co. Ltd.

THE STEEL COMPANY OF CANADA
LTD. 273

SUN LIFE ASSURANCE CO.
OF CANADA 267

SUPERTEST PETROLEUM CORPORATION
LTD. 205

TRANS-CANADA TELEPHONE
SYSTEM 210
McKim Advertising Ltd.

UNDERWOOD LIMITED 209
Cockfield, Brown & Co. Ltd.

UNION CARBIDE CANADA LIMITED 214
F. H. Hayhurst Co. Ltd.

XEROX OF CANADA LTD. 213
Rapert, Koenig, Lois, Inc., Advertising

Canadian Law and The Businessman

(Continued)

One interesting feature of the case is that shortly after the loan was made, the Mortgage was sold by Manor Investments Limited to Finkelstein. The Court refused to interfere with Finkelstein's Mortgage and the Scotts, therefore, would presumably have to repay him all that was owing including bonus, commission, and interest. Their only remedy lay against the original lender, Manor Investments Limited, and this remedy would, of course, be worthless if Manor Investments by that time had become insolvent. The Court's reasoning was no doubt that Finkelsten was a bona fide purchaser of the Mortgage in good faith. That is to say that he had no knowledge of the transaction between Scott and Manor Investments beyond what appears on the face of the Mortgage and thus was not tainted by the improper conduct of the latter. But suppose Finkelstein had been President and controlling shareholder of Manor Investments Limited. Should he then still be allowed to argue that he (Finkelstein) and Manor Investments Limited are separate legal entities and that since he had no personal knowledge of the circumstances surrounding the making of the loan, he bought the Mortgage in good faith as though from a stranger? The cases going all the way back to Salomon v Salomon 1897 A.C. 22 would probably support this position and point to a most convenient avenue of escape.

In the final result, the Court allowed the lenders interest at 12% on the amount advanced (2,375) and compelled the original lender to repay the balance to the Scotts. Finkelstein got away scott free. No doubt more will be heard of The Unconscionable Transactions Relief Act, and this case is of interest as indicating the test that a Court may be expected to use to determine when a transaction is such that relief should be granted.